
THIS COMPOSITE DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect about the Offer, this Composite Document, the Form(s) of Acceptance and Transfer or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Advanced Card Systems Holdings Limited**, you should at once hand this Composite Document and the accompanying Form(s) of Acceptance and Transfer to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer or registered institution in securities, or other agent through whom the sale or transfer was effected for onward transmission to the purchaser(s) or transferee(s).

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Composite Document and the accompanying Form(s) of Acceptance and Transfer, make no representation as to their accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Composite Document and the accompanying Form(s) of Acceptance and Transfer.

This Composite Document should be read in conjunction with the accompanying Form(s) of Acceptance and Transfer, the contents of which form part of the terms and conditions of the Offer.



HNA EcoTech Pioneer Acquisition **Advanced Card Systems Holdings Limited**

(Incorporated in the Cayman Islands with limited liability)

龍傑智能卡控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2086)

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

Financial adviser to the Offeror



**Independent Financial Adviser to the Independent Board Committee
of Advanced Card Systems Holdings Limited**



Capitalised terms used on this cover page shall have the same meanings as those defined in this Composite Document.

A letter from Fortune Securities containing, among other things, principal terms of the Offer is set out on pages 6 to 13 of this Composite Document. A letter from the Board is set out on pages 14 to 18 of this Composite Document.

A letter from the Independent Board Committee to the Offer Shareholders containing its recommendation in respect of the Offer is set out on pages 19 and 20 of this Composite Document. A letter from Gram Capital containing its recommendation to the Independent Board Committee in respect of the Offer and the principal factors considered by it in arriving at its recommendation is set out on pages 21 to 32 of this Composite Document.

The procedures for acceptance and other related information in respect of the Offer are set out in Appendix I to this Composite Document and the accompanying Form(s) of Acceptance and Transfer. Form(s) of Acceptance and Transfer should be received by the Registrar as soon as possible and in any event not later than 4:00 p.m. on Wednesday, 22 March 2017 (or such later time and/or date as the Offeror may determine and the Offeror and the Company may jointly announce, with the consent of the Executive, in accordance with the Takeovers Code).

The Composite Document will remain on the website at the Stock Exchange and the website of the Company as long as the Offer remains open.

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EXPECTED TIMETABLE

The timetable set out below is indicative only and is subject to change. Any changes to the timetable will be jointly announced by the Offeror and the Company as and when appropriate.

Despatch date of this Composite Document and the accompanying Form(s) of Acceptance and Transfer and commencement date of the Offer (<i>Note 1</i>)	Wednesday, 1 March 2017
Latest time and date for acceptance of the Offer (<i>Note 2</i>)	4:00 p.m. on Wednesday, 22 March 2017
Closing Date (<i>Note 2</i>)	Wednesday, 22 March 2017
Announcement of the results of the Offer (or its extension or revision, if any), to be posted on the website of the Stock Exchange (<i>Note 2</i>)	No later than 7:00 p.m. on Wednesday, 22 March 2017
Latest date for posting of remittances in respect of valid acceptances received under the Offer (<i>Note 3</i>)	Friday, 31 March 2017

Notes:

1. The Offer, which is unconditional, is made on the date of posting of this Composite Document, and is capable of acceptance on and from that date until the Closing Date.
2. The latest time and date for acceptance will be at 4:00 p.m. on Wednesday, 22 March 2017 unless the Offeror revises or extends the Offer in accordance with the Takeovers Code. The Offeror and the Company will jointly issue an announcement through the websites of the Stock Exchange and the Company no later than 7:00 p.m. on Wednesday, 22 March 2017 stating whether the Offer has been extended, revised or has expired. In the event that the Offeror decides to revise or extend the Offer, at least 14 days' notice by way of an announcement will be given before the Offer is closed to those Offer Shareholders who have not accepted the Offer.
3. Remittances in respect of the cash consideration (after deducting the seller's Hong Kong ad valorem stamp duty) payable for the Offer Shares tendered under the Offer will be despatched to the Offer Shareholders accepting the Offer by ordinary post at their own risk as soon as possible, but in any event within seven (7) Business Days after the date of receipt by the Registrar of all relevant documents (receipt of which renders such acceptance complete and valid), in accordance with the Takeovers Code. Acceptance of the Offer shall be irrevocable and not capable of being withdrawn, except as permitted under the Takeovers Code. Please refer to paragraph headed "4. Right of withdrawal" in Appendix I to this Composite Document for further information on the circumstances where acceptances may be withdrawn.
4. If there is a tropical cyclone warning signal number 8 or above, or a "black" rainstorm warning in force in Hong Kong: (a) at any local time before 12:00 noon but no longer in force after 12:00 noon on the latest date for acceptance of the Offer and the latest date for posting of remittances for the amounts due under the Offer in respect of valid acceptances, the latest time for acceptance of the Offer will remain at 4:00 p.m. on the same Business Day and the latest date for the posting of remittances will remain on the same Business Day, (b) at any local time between 12:00 noon and 4:00 p.m. on the latest date for acceptance of the Offer and the latest date for posting of remittances for the amounts due under the Offer in respect of valid acceptances, the latest time for acceptance of the Offer will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m. and the posting of remittances will be the next following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

All references to dates and times contained in this Composite Document refer to Hong Kong dates and times.

DEFINITIONS

In this Composite Document, the following expressions have the meanings set out below unless the context requires otherwise.

“Acquisition”	the purchase of the Sale Shares by the Offeror from the Vendors in accordance with the terms and conditions of the Sale and Purchase Agreement
“acting in concert”	has the same meaning ascribed to it under the Takeovers Code
“associate(s)”	has the same meaning ascribed to it under the Takeovers Code
“Business Day”	a day on which the Stock Exchange is open for the transaction of business
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Closing Date”	22 March 2017
“Company”	Advanced Card Systems Holdings Limited, a company incorporated in the Cayman Islands with limited liability, and the Shares of which are listed on the Main Board of the Stock Exchange (Stock code: 2086)
“Completion”	completion of the Acquisition in accordance with the terms and conditions of the Sale and Purchase Agreement
“Composite Document”	this composite offer and response document together with the Form(s) of Acceptance and Transfer in respect of the Offer jointly despatched by the Offeror and the Company in accordance with the Takeovers Code
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	director(s) of the Company
“Encumbrances”	(i) any valid mortgage, pledge, charge, lien, rights of pre-emption, guarantee, trust arrangements or any other similar restriction on rights securing, or conferring any priority of payment in respect of, any obligation of any person, (ii) any valid proxy, power of attorney, voting trust agreement, beneficial interest, option, right of first offer or refusal or other transfer restriction in favour of any person, and (iii) any adverse, legal and valid claim as to title, possession or use

DEFINITIONS

“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any of his delegates
“Form(s) of Acceptance and Transfer”	the form(s) of acceptance and transfer of the Offer Shares in respect of the Offer accompanying this Composite Document
“Fortune Financial”	Fortune Financial Capital Limited 富強金融資本有限公司, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the financial adviser to the Offeror in respect of the Offer
“Fortune Securities”	Fortune (HK) Securities Limited 富強證券有限公司, a licensed corporation to carry out Type 1 (dealing in securities) regulated activity under the SFO
“Gram Capital” or “Independent Financial Adviser”	Gram Capital Limited 嘉林資本有限公司, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO being the independent financial adviser to advise the Independent Board Committee in respect of the Offer
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HNA Group”	HNA Group Co., Ltd.* (海航集團有限公司), a limited liability company established in the PRC and a PRC conglomerate
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the board of directors of the Company, comprising Ms. Kaung Cheng Xi Dawn, Mr. Lo Kar Chun, <i>SBS, JP</i> and Mr. Yim Kai Pung, formed for the purpose of advising the Offer Shareholders in respect of the Offer
“Joint Announcement”	the announcement jointly published by the Offeror and the Company dated 12 January 2017 in relation to, among others, the Sale and Purchase Agreement and the Offer
“Last Trading Day”	9 January 2017, being the day on which Shares last traded on the Stock Exchange immediately prior to the suspension of trading in the Shares pending the release of the Joint Announcement

* For identification purpose only

DEFINITIONS

“Latest Practicable Date”	24 February 2017, being the latest practicable date prior to the printing of this Composite Document for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“Offer”	the mandatory unconditional cash offer made by Fortune Securities on behalf of the Offeror, to acquire all the issued Shares not already owned and/or agreed to be acquired by the Offeror and parties acting in concert with it subject to the conditions in this Composite Document, the Form(s) of Acceptance and Transfer, and in accordance with the Takeovers Code
“Offer Period”	the period from 5 December 2016 to the Closing Date, or such other time and/or date to which the Offeror may decide to extend or revise the Offer in accordance with the Takeovers Code
“Offer Share(s)”	any of the 123,393,497 Shares held by the Offer Shareholders that are subject to the Offer
“Offer Shareholder(s)”	holder(s) of Share(s), other than the Offeror and parties acting in concert with it
“Offeror”	HNA EcoTech Pioneer Acquisition, an exempted company incorporated in the Cayman Islands with limited liability, details of which are set out in the paragraph headed “Information of the Offeror” in the section headed “Letter from Fortune Securities”
“Overseas Shareholder(s)”	Shareholder(s) whose address(es), as shown on the register of members of the Company, is/are outside Hong Kong
“PRC”	the People’s Republic of China, which for the purpose of this Composite Document and Form(s) of Acceptance and Transfer, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Registrar”	Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, the Company’s Hong Kong branch share registrar and transfer office

DEFINITIONS

“Relevant Period”	the period commencing from 6 June 2016, being the date falling six months before 5 December 2016, up to and including the Latest Practicable Date
“Rights Issue”	the issue of the Rights Shares by the Company on 14 November 2016 on the basis of one Rights Share for every eight existing Shares held by the Shareholders whose names appeared on the register of members of the Company on 20 October 2016 to the qualifying Shareholders at the subscription price of HK\$1.14 each, details of which were disclosed in the announcements of the Company dated 23 September 2016, 13 October 2016 and 11 November 2016 and the prospectus of the Company dated 21 October 2016
“Rights Shares”	35,507,210 Shares allotted and issued under the Rights Issue
“Sale and Purchase Agreement”	the sale and purchase agreement dated 9 January 2017 and entered into among the Vendors and the Offeror in relation to the sale and purchase of the Sale Shares
“Sale Shares”	an aggregate of 196,171,395 Shares, being such number of Shares as shall represent all the Shares that the Vendors held or were otherwise interested in the Company immediately prior to Completion, and a “Sale Share” means any of them
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of par value of HK\$0.10 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Code on Takeovers and Mergers
“Vendors”	Ms. Tsui Kam Ling, Mr. Wong Chi Ho, Mr. Wong Chi Kit and Ms. Chan Angelica Sheung Ying
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.



1 March 2017

To the Offer Shareholders

Dear Sir or Madam,

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

INTRODUCTION

On 9 January 2017 (after trading hours), the Vendors and the Offeror entered into the Sale and Purchase Agreement pursuant to which the Vendors have conditionally agreed to sell and the Offeror has conditionally agreed to purchase an aggregate of 196,171,395 Shares, representing approximately 61.39% of the entire issued share capital of the Company as at the Latest Practicable Date, for a total cash consideration of HK\$521,815,910 (being approximately HK\$2.66 per Share). Completion of the Sale and Purchase Agreement took place on 13 January 2017.

Immediately prior to Completion, none of the Offeror and parties acting in concert with it owned any Shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company. Immediately after Completion, the Offeror and parties acting in concert with it owned in aggregate 196,171,395 Shares, representing approximately 61.39% of the entire issued share capital of the Company. The Offeror is therefore upon Completion required under Rule 26.1 of the Takeovers Code to make a mandatory unconditional cash offer for all the issued Shares not already owned and/or agreed to be acquired by it and/or parties acting in concert with it.

This letter sets out, among other things, principal terms of the Offer, together with the information of the Offeror and the Offeror's intentions regarding the Group. Further details of the Offer are also set out in Appendix I to this Composite Document and the accompanying Form(s) of Acceptance and Transfer. Your attention is also drawn to the "Letter from the Board", the "Letter from the Independent Board Committee" to the Offer Shareholders and the "Letter from Gram Capital" to the Independent Board Committee and the Offer Shareholders, and the appendices as contained in this Composite Document.

LETTER FROM FORTUNE SECURITIES

THE OFFER

Principal terms of the Offer

We are unconditionally making the Offer for and on behalf of the Offeror on the following basis:

For each Offer Share HK\$2.66 in cash

The offer price is the same as the price paid by the Offeror (rounded up to the nearest cent) for each Sale Share pursuant to the Sale and Purchase Agreement.

As at the Latest Practicable Date, there are 319,564,892 Shares in issue and the Company has no outstanding securities, options, warrants or derivatives which are convertible into or which confer rights to require the issue of Shares and the Company has no other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code).

Based on the offer price of HK\$2.66 per Offer Share, the entire issued share capital of the Company is valued at HK\$850,042,612.72. The Offer is made to the Offer Shareholders. As the Offeror and parties acting in concert with it held in aggregate 196,171,395 Shares as at the Latest Practicable Date, 123,393,497 Shares are subject to the Offer. Based on the offer price of HK\$2.66 per Offer Share, the total consideration of the Offer would be HK\$328,226,702.02 (assuming full acceptance of the Offer).

The procedures for acceptance and further details of the Offer are set out in Appendix I to this Composite Document and the accompanying Form(s) of Acceptance and Transfer.

Offer price

The offer price of HK\$2.66 per Offer Share represents:

- (a) a premium of approximately 17.7% over the closing price of HK\$2.26 per Share as quoted on the Stock Exchange on 9 January 2017, being the Last Trading Day;
- (b) a premium of approximately 15.5% over the average closing price of approximately HK\$2.30 per Share as quoted on the Stock Exchange for the five consecutive trading days immediately prior to and including the Last Trading Day;
- (c) a premium of approximately 12.9% over the average closing price of approximately HK\$2.36 per Share as quoted on the Stock Exchange for the 10 consecutive trading days immediately prior to and including the Last Trading Day;
- (d) a premium of approximately 31.4% over the average closing price of approximately HK\$2.02 per Share as quoted on the Stock Exchange for the 30 consecutive trading days immediately prior to and including the Last Trading Day;
- (e) a premium of approximately 549.6% over the audited consolidated net asset value per Share of approximately HK\$0.41 as at 31 December 2015 (being the date to which the latest audited consolidated annual results of the Group were made up), calculated based on the Group's audited consolidated net assets of approximately HK\$130.85 million as at 31 December 2015 and 319,564,892 Shares in issue as at the Latest Practicable Date;

LETTER FROM FORTUNE SECURITIES

- (f) a premium of approximately 688.7% over the unaudited consolidated net asset value per Share of approximately HK\$0.34 as at 30 June 2016 (being the date to which the latest unaudited published consolidated interim results of the Group were made up), calculated based on the Group's unaudited consolidated net assets of approximately HK\$107.78 million as at 30 June 2016 and 319,564,892 Shares in issue as at the Latest Practicable Date;
- (g) a premium of approximately 72.7% over the closing price of HK\$1.54 per Share as quoted on the Stock Exchange on 2 December 2016, being the last business day prior to the commencement of the Offer Period; and
- (h) the closing price of HK\$2.66 per Share as quoted on the Stock Exchange on 24 February 2017, being the Latest Practicable Date.

Highest and lowest Share prices

During the Relevant Period, the highest and lowest closing prices of the Shares as quoted on the Stock Exchange were HK\$2.67 per Share on 19 January 2017 and HK\$1.332 (adjusted) per Share on 7 July 2016, respectively.

Confirmation of financial resources

The Offeror intends to finance the total consideration payable by the Offeror in respect of the Offer by its own resources. Fortune Financial, as the financial adviser to the Offeror in respect of the Offer, is satisfied that sufficient financial resources are available to the Offeror to satisfy the consideration for full acceptance of the Offer.

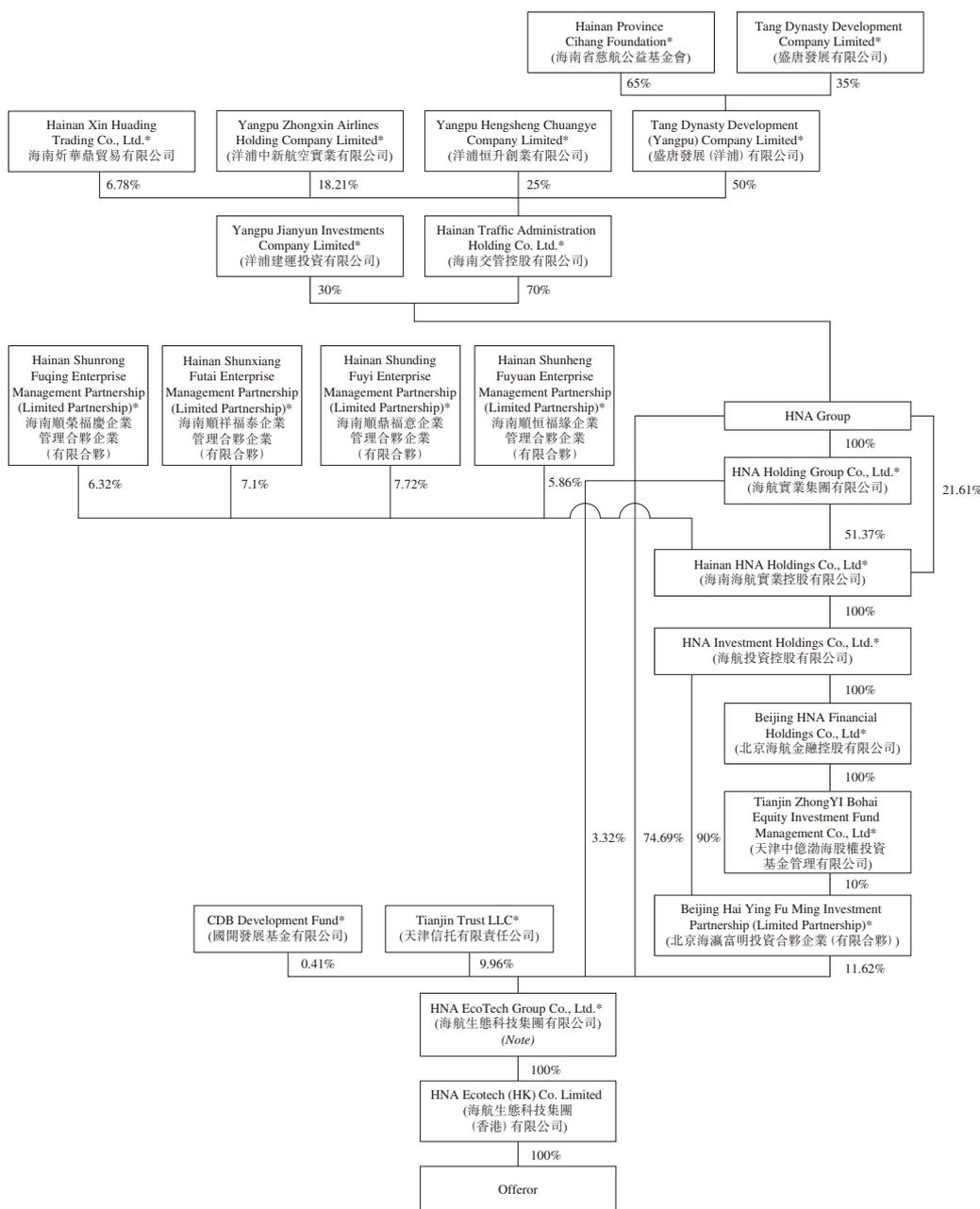
INFORMATION ON THE OFFEROR

The Offeror was incorporated in the Cayman Islands on 12 December 2016 as an exempt company with limited liability and is an investment holding company established for the purpose of holding the Sale Shares and any Shares to be acquired under the Offer. To the best of the directors of the Offeror's knowledge, information and belief, HNA Group is held as to 30% by Yangpu Jianyun Investments Company Limited* (洋浦建運投資有限公司) and 70% by Hainan Traffic Administration Holding Co. Ltd.* (海南交管控股有限公司), which is in turn held as to 50% by Tang Dynasty Development (Yangpu) Company Limited* (盛唐發展(洋浦)有限公司). Tang Dynasty Development (Yangpu) Company Limited* (盛唐發展(洋浦)有限公司) is held as to 65% by Hainan Province Cihang Foundation* (海南省慈航公益基金會) and 35% by Tang Dynasty Development Company Limited* (盛唐發展有限公司). HNA Group is a PRC conglomerate encompassing core divisions of tourism, holding, capital, logistics and ecotechnology. According to the Fortune Global 500 ranking released by the U.S. "Fortune" magazine in 2015, HNA Group ranked No. 464 among all companies in the world, with an annual revenue of over US\$25.6 billion. In July 2016, HNA Group was listed among Fortune Global 500 once again, ranking No. 353 with annual revenue of approximately US\$29.56 billion. The ranking rose by 111 positions compared with the previous year. Immediately prior to the entering into the Sale and Purchase Agreement, the Offeror and parties acting in concert with it did not hold any securities of the Company, and were independent of the Company and its connected persons.

* For identification purpose only

LETTER FROM FORTUNE SECURITIES

As at the Latest Practicable Date, the shareholding structure of HNA Group was as follows:



Note: On 6 January 2017, HNA EcoTech Group Co., Ltd. (“EcoTech Group”) and its existing shareholders entered into a capital increase agreement with Bank of Communications Trustee Limited 交銀國際信託有限公司 (“BOCTL”) for an amount up to RMB1.5 billion. The capital injection by BOCTL under such agreement has not been completed or implemented as at the Latest Practicable Date. Upon the completion of the capital injection in a total amount of RMB1.5 billion, the registered capital of EcoTech Group will be increased from RMB6,025,000,000 to RMB7,525,000,000, and BOCTL is anticipated to hold 19.93% of the equity interest of EcoTech Group. According to the said capital increase agreement, BOCTL will entrust HNA Group to exercise its voting rights in EcoTech Group. HNA Group has an obligation to purchase BOCTL’s equity in EcoTech Group subject to the terms and conditions of an equity transfer agreement entered into between HNA Group and BOCTL.

* For identification purpose only

LETTER FROM FORTUNE SECURITIES

INTENTIONS OF THE OFFEROR REGARDING THE GROUP

The Offeror intends that the Group will continue with its existing businesses. The Offeror will also conduct a review on the business operations and financial position of the Group for the purpose of formulating business plans and strategies for the future business development of the Group. Subject to the results of the review, the Offeror 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.

The board of directors of the Company is currently made up of six Directors, comprising of three executive Directors and three independent non-executive Directors. It is currently expected that the Offeror will require two executive Directors to resign from the board of directors of the Company, and the Offeror will nominate new Directors to be appointed to the board of directors of the Company at appropriate time and as allowed under the Takeovers Code. Any such resignation and appointment will be made in compliance with the Takeovers Code and the Listing Rules. Further announcement(s) will be made upon any appointment of new Directors.

Save as the Offeror's intention regarding the Group as set out above and the potential changes to the members of the board of directors of the Company, the Offeror has no intention to (i) discontinue the employment of any employees of the Group; or (ii) redeploy the fixed assets of the Company other than those in its ordinary and usual course of business.

INFORMATION ON THE GROUP

As disclosed in the "Letter from the Board" in this Composite Document, the Group is principally engaged in the development, sales and distribution of smart card products, software and hardware and the provision of smart card related services. The Group's principal business activities are currently classified into four different product and service lines, namely, readers, terminals, card operating systems and solutions business, which currently includes automatic fare collection solutions and intelligent transportation systems solutions. Please refer to the "Letter from the Board" and the appendices to this Composite Document for further details.

PUBLIC FLOAT AND MAINTAINING THE LISTING STATUS OF THE COMPANY

The Offeror intends to maintain the listing of the Shares on the Stock Exchange following the close of the Offer.

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

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

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

Each of the directors of the Offeror has jointly and severally undertaken to the Stock Exchange that it would take appropriate steps to ensure that sufficient public float exists in the Shares.

LETTER FROM FORTUNE SECURITIES

PROCEDURES FOR ACCEPTANCE OF THE OFFER

To accept the Offer, Offer Shareholders should complete the accompanying Form(s) of Acceptance and Transfer for the Shares in accordance with the instructions printed thereon. The Form(s) of Acceptance and Transfer form part of the terms of the Offer. The duly completed Form(s) of Acceptance and Transfer should then be forwarded, together with the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for not less than the number of the Shares in respect of which you intend to tender under the Offer, by post or by hand, to the Registrar at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong in an envelope marked “**Advanced Card Systems Offer**” to be received by the Registrar no later than 4:00 p.m. on the Closing Date. No acknowledgement of receipt of any Form(s) of Acceptance and Transfer and the title documents will be given.

Your attention is drawn to the paragraph headed “1. General procedures for acceptance of the Offer” as set out in Appendix I to this Composite Document and the accompanying Form(s) of Acceptance and Transfer.

Settlement of the Offer

Provided that the accompanying Form(s) of Acceptance and Transfer for the Shares, together with the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are valid, complete and in good order and have been received by the Registrar no later than 4:00 p.m. on the Closing Date, a cheque for the amount due to each of the accepting Offer Shareholder in respect of the Shares tendered under the Offer (less seller’s Hong Kong ad valorem stamp duty payable by him) will be despatched to the accepting Offer Shareholder by ordinary post at his own risk as soon as possible but in any event within seven (7) Business Days from the date of receipt of all relevant documents to render such acceptance complete and valid by the Registrar in accordance with the Takeovers Code. The consideration to which any accepting Offer Shareholder is entitled under the Offer will be paid by the Offeror in full in accordance with the terms of the Offer (save with respect to the payment of seller’s Hong Kong ad valorem stamp duty) set out in this Composite Document (including Appendix I to this Composite Document) and the accompanying Form(s) of Acceptance and Transfer without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such accepting Offer Shareholder.

No fractions of a cent will be payable and the amount of the consideration payable to an Offer Shareholder who accepts the Offer will be rounded up to the nearest cent.

Effect of accepting the Offer

By validly accepting the Offer, the Offer Shareholders shall sell their Shares free from all Encumbrances and with all rights and benefits at any time accruing and attached to them, including the rights to receive all dividends and distributions declared, made or paid on or after the date on which the Offer is made.

LETTER FROM FORTUNE SECURITIES

Acceptance of the Offer by any Offer Shareholders will be deemed to constitute a warranty by such person that all Shares sold by such person under the Offer are free from all Encumbrances whatsoever and together with all rights accruing or attaching thereto, including, without limitation, the right to receive dividends and distributions declared, made or paid, if any, on or after the date on which the Offer is made.

Acceptance of the Offer would be irrevocable and would not be capable of being withdrawn, subject to the provisions of the Takeovers Code.

Hong Kong Stamp duty

Seller's Hong Kong ad valorem stamp duty arising in connection with acceptance of the Offer amounting to HK\$1.00 for every HK\$1,000 or part thereof of the amount payable in respect of relevant acceptances by the Offer Shareholders, or (if higher) the value of the Shares as determined by the Collector of Stamp Revenue under the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong), will be deducted from the amount payable to the Offer Shareholders who accept the Offer. The Offeror will then pay the Hong Kong stamp duty so deducted to the Stamp Office of Hong Kong. The Offeror will bear buyer's Hong Kong ad valorem stamp duty.

Overseas Shareholders

As the Offer to persons not resident in Hong Kong may be prohibited or affected by the laws of the relevant jurisdictions in which they are resident, Overseas Shareholders who are citizens, residents or nationals of a jurisdiction outside Hong Kong should observe any applicable legal or regulatory requirements and, where necessary, seek legal advice. It is the responsibility of Overseas Shareholders who wish to accept the Offer to satisfy themselves as to the full observance of the laws and regulations of all the relevant jurisdictions in connection with the acceptance of the Offer (including but not limited to the obtaining of any governmental, exchange control or other consents and any registration or filing which may be required, and the compliance with all other necessary formalities, regulatory and/or legal requirements and the payment of any transfer or other taxes).

Tax Implications

Offer Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Offer. It is emphasised that none of the Offeror, the Company, their respective beneficial owners and parties acting in concert with them, Fortune Securities, Fortune Financial, the Registrar or any of their respective directors, officers, advisers, associates, agents or any persons involved in the Offer is in a position to advise the Offer Shareholders on their individual tax implications, nor do they accept responsibility for any taxation effects on, or liabilities of, any person or persons as a result of their acceptance or rejection of the Offer.

COMPULSORY ACQUISITION

The Offeror does not intend to exercise any powers of compulsory acquisition of any Offer Shares outstanding and not acquired under the Offer after the close of the Offer.

LETTER FROM FORTUNE SECURITIES

GENERAL

To ensure equality of treatment of all Offer Shareholders, those Offer Shareholders who hold the Shares as nominee for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. In order for the beneficial owners of the Shares, whose investments are registered in nominee names, to accept the Offer, it is essential that they provide instructions to their nominees of their intentions with regard to the Offer.

All documents and remittances will be sent to the Offer Shareholders by ordinary post at their own risk. These documents and remittances will be sent to them at their respective addresses as they appear in the register of members, or, in case of joint holders to the Offer Shareholder whose name appears first in the said register of members, unless otherwise specified in the accompanying Form(s) of Acceptance and Transfer completed, returned and received by the Registrar. None of the Offeror, the Company, their respective ultimate beneficial owners and parties acting in concert with them, Fortune Securities, Fortune Financial, Gram Capital, the Registrar or any of their respective directors, officers, advisers, associates, agents or any persons involved in the Offer will be responsible for any loss or delay in transmission of such documents and remittances or any other liabilities that may arise as a result thereof.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information regarding the Offer set out in the appendices to this Composite Document and the accompanying Form(s) of Acceptance and Transfer, which form part of this Composite Document.

In addition, your attention is also drawn to the “Letter from the Board”, the “Letter from the Independent Board Committee” and the letter of advice by Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Offer Shareholders in respect of the Offer as set out in the “Letter from Gram Capital” contained in this Composite Document.

Yours faithfully,
For and on behalf of
Fortune (HK) Securities Limited
Law Kin Tai
Responsible Officer

LETTER FROM THE BOARD



Advanced Card Systems Holdings Limited

龍傑智能卡控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2086)

Executive Directors:

Ms. Tsui Kam Ling (*Chairman*)

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

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

Independent Non-executive Directors:

Ms. Kaung Cheng Xi Dawn

Mr. Lo Kar Chun, *SBS, JP*

Mr. Yim Kai Pung

Registered Office:

P.O. Box 309

Ugland House

Grand Cayman

KY1-1104

Cayman Islands

*Head Office and Principal Place
of Business:*

Units 2010–2013, 20th Floor

Chevalier Commercial Centre

8 Wang Hoi Road

Kowloon Bay

Hong Kong

1 March 2017

To the Offer Shareholders

Dear Sir or Madam,

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

INTRODUCTION

References are made to the Joint Announcement.

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

* *For identification purpose only*

LETTER FROM THE BOARD

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

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

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

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

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

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

THE OFFER

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

For each Offer Share HK\$2.66 in cash

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

LETTER FROM THE BOARD

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

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

INFORMATION OF THE GROUP

The Group is principally engaged in the development, sales and distribution of smart card products, software and hardware and the provision of smart card related services. The Group’s principal business activities are currently classified into four different product and service lines, namely, readers, terminals, card operating systems and solutions business, which currently includes automatic fare collection solutions and intelligent transportation systems solutions.

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

SHAREHOLDING STRUCTURE OF THE COMPANY

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

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

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

LETTER FROM THE BOARD

FINANCIAL INFORMATION OF THE GROUP

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

	Year ended 31 December		Six months ended
	2014	2015	30 June 2016
	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(unaudited)
Revenue	246,323	234,526	57,731
Gross profit	121,857	116,239	28,930
Profit/(Loss) before taxation	26,579	22,251	(22,612)
Profit/(Loss) for the year/period	<u>23,724</u>	<u>20,304</u>	<u>(19,863)</u>
	As at 31 December		As at
	2014	2015	30 June 2016
	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(unaudited)
Consolidated net asset value attributable to the owners of the Company	<u>117,087</u>	<u>130,850</u>	<u>107,775</u>

INTENTIONS OF THE OFFEROR REGARDING THE GROUP

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

LETTER FROM THE BOARD

MAINTAINING THE LISTING STATUS AND PUBLIC FLOAT OF THE COMPANY

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

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

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

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

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

RECOMMENDATION

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

ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of the Board
Advanced Card Systems Holdings Limited
Tsui Kam Ling
Director



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)

1 March 2017

To the Offer Shareholders

Dear Sir or Madam,

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

We refer to this Composite Document dated 1 March 2017 jointly issued by the Company and the Offeror of which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in this Composite Document.

We have been appointed to constitute the Independent Board Committee to consider the terms of the Offer and to advise the Offer Shareholders as to whether or not the terms of the Offer are fair and reasonable and to make recommendation in respect of acceptance of the Offer. Gram Capital has been appointed as the Independent Financial Adviser to make recommendation to us in respect of the terms of the Offer and, in particular, whether the Offer is fair and reasonable and to make recommendation in respect of the acceptance the Offer. Details of its advice and recommendation, together with the principal factors and reasons which it has considered before arriving at such recommendation, are set out in the “Letter from Gram Capital” on pages 21 to 32 of this Composite Document. We also wish to draw your attention to the “Letter from the Board”, the “Letter from Fortune Securities” and the additional information set out in the appendices to this Composite Document.

We, being the members of the Independent Board Committee, have no direct or indirect interest in the Offer other than Mr. Lo Kar Chun, *SBS, JP* who is interested in 450,000 Shares, representing approximately 0.14% of the entire issued share capital of the Company as at the

* *For identification purpose only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Latest Practicable Date. Save for the aforesaid interest of Mr. Lo Kar Chun, *SBS, JP* in the Shares, we do not have any conflict of interest in respect of the Offer, and are therefore independent and able to consider the terms of the Offer and make recommendation to the Offer Shareholders.

Having considered the terms of the Offer and the advice from Gram Capital, in particular the factors, reasons and recommendation as set out in the “Letter from Gram Capital”, we concur with the view of Gram Capital and consider that the terms of the Offer are fair and reasonable so far as the Offer Shareholders are concerned, and recommend the Offer Shareholders to accept the Offer.

Offer Shareholders are reminded to closely monitor the market price and liquidity of the Shares during the Offer Period, and consider selling their Shares in the open market, where possible, instead of accepting the Offer, if the net proceeds from such sales exceed the net amount receivable under the Offer.

Notwithstanding our recommendation, the Offer Shareholders are reminded that their decision to realise or to hold their investment in the Company depends on their own individual circumstances and investment objectives. If in any doubt, the Offer Shareholders should consult their own professional advisers for professional advice.

Yours faithfully,

For and on behalf of the

Independent Board Committee of

Advanced Card Systems Holdings Limited

Ms. Kaung Cheng Xi Dawn

Mr. Lo Kar Chun, *SBS, JP*

Mr. Yim Kai Pung

Independent non-executive Directors

LETTER FROM GRAM CAPITAL

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee in respect of the Offer for the purpose of inclusion in this Composite Document.



Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

1 March 2017

To: The independent board committee of Advanced Card Systems Holdings Limited

Dear Sirs,

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

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Offer, details of which are set out in the Composite Document dated 1 March 2017 jointly issued by the Company and the Offeror to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Composite Document unless the context requires otherwise.

On 9 January 2017 (after trading hours), the Vendors and the Offeror entered into the Sale and Purchase Agreement, pursuant to which the Vendors have agreed to sell and the Offeror has agreed to purchase an aggregate of 196,171,395 Shares, representing approximately 61.39% of the entire issued share capital of the Company as at the Latest Practicable Date, for a total cash consideration of HK\$521,815,910 (being approximately HK\$2.66 per Share).

Immediately prior to Completion, none of the Offeror and parties acting in concert with it owned any Shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company. Immediately after Completion, the Offeror and parties acting in concert with it owned in aggregate 196,171,395 Shares, representing approximately 61.39% of the entire issued share capital of the Company. The Offeror is therefore upon Completion required under Rule 26.1 of the Takeovers Code to make a mandatory unconditional cash offer for all the issued Shares not already owned and/or agreed to be acquired by it and/or parties acting in concert with it.

LETTER FROM GRAM CAPITAL

An Independent Board Committee comprising Ms. Kaung Cheng Xi Dawn, Mr. Lo Kar Chun, *SBS, JP* and Mr. Yim Kai Pung (all being independent non-executive Directors) has been formed to advise the Offer Shareholders on whether the terms of the Offer are fair and reasonable and as to the acceptance of the Offer. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee in this respect, and our opinion herein is solely for the assistance of the Independent Board Committee in connection with its consideration of the Offer pursuant to Rule 2.1 of the Takeovers Code. The appointment of Gram Capital as the Independent Financial Adviser has been approved by the Independent Board Committee.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee, we have relied on the statements, information, opinions and representations contained or referred to in the Composite Document and the information and representations as provided to us by the Directors and the Offeror (where applicable). We have assumed that all information and representations that have been provided by the Directors and the Offeror (where applicable), for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors and the Offeror (where applicable) in the Composite Document were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Composite Document, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors and the Offeror (where applicable), which have been provided to us. Our opinion is based on the Directors' and the Offeror's representation and confirmation that there is no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Offer. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules and Rule 2 of the Takeovers Code.

The directors of the Offeror and directors of HNA Group jointly and severally accepts full responsibility for the accuracy of the information contained in the Composite Document (other than that relating to the Vendors, the Group or their respective director(s)), and confirms, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in the Composite Document (other than that expressed by the Directors) have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statements in the Composite Document misleading.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Document (other than that relating to the Offeror and parties acting in concert with it), and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Composite Document (other than that expressed by directors of the Offeror) have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statements in the Composite Document misleading.

LETTER FROM GRAM CAPITAL

We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Composite Document, save and except for this letter of advice. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Vendors, the Offeror or their respective subsidiaries or associates (if applicable), nor have we considered the taxation implication on the Group or the Shareholders as a result of the Offer.

We have assumed that the Offer will be consummated in accordance with the terms and conditions set forth in the Composite Document without any waiver, amendment, addition or delay of any terms or conditions. We have assumed that in connection with the receipt of all the necessary governmental, regulatory or other approvals and consents as required for the Offer, no delay, limitation, condition or restriction will be imposed that would have a material adverse effect on the contemplated benefits expected to be derived from the Offer. In addition, our opinion is necessarily based on the financial, market, economic, industry-specific and other conditions as they existed on, and the information made available to us as at the Latest Practicable Date.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Offer, we have taken into consideration the following principal factors and reasons:

(1) Background and terms of the Offer

On 9 January 2017 (after trading hours), the Vendors and the Offeror entered into the Sale and Purchase Agreement, pursuant to which the Vendors have agreed to sell and the Offeror has agreed to purchase an aggregate of 196,171,395 Shares, representing approximately 61.39% of the entire issued share capital of the Company as at the Latest Practicable Date, for a total cash consideration of HK\$521,815,910 (being approximately HK\$2.66 per Share).

Immediately prior to Completion, none of the Offeror and parties acting in concert with it owned any Shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company. Immediately after Completion, the Offeror and parties acting in concert with it owned in aggregate 196,171,395 Shares, representing approximately 61.39% of the entire issued share capital of the Company. The Offeror is therefore upon Completion required under Rule 26.1 of the Takeovers Code to make a mandatory unconditional cash offer for all the issued Shares not already owned and/or agreed to be acquired by it and/or parties acting in concert with it.

The Offer

For each Offer ShareHK\$2.66 in cash

Further details of the Offer are set out in Appendix I to the Composite Document and the accompanying Form(s) of Acceptance and Transfer.

LETTER FROM GRAM CAPITAL

As at the Latest Practicable Date, there were 319,564,892 Shares in issue and the Company has no outstanding securities, options, warrants or derivatives which are convertible into or which confer rights to require the issue of Shares and the Company has no other relevant securities.

Based on the offer price of HK\$2.66 per Offer Share (the “Offer Price”), the entire issued share capital of the Company is valued at HK\$850,042,612.72. The Offer is made to the Offer Shareholders.

As the Offeror and parties acting in concert with it held in aggregate 196,171,395 Shares as at the Latest Practicable Date, 123,393,497 Shares are subject to the Offer. Based on the Offer Price of HK\$2.66 per Offer Share, the total consideration of the Offer would be HK\$328,226,702.02 (assuming full acceptance of the Offer).

(2) Financial information on the Group

With reference to the Board Letter, the Group is principally engaged in the development, sales and distribution of smart card products, software and hardware and the provision of smart card related services. The Group’s principal business activities are currently classified into four different product and service lines, namely, readers, terminals, card operating systems and solutions business, which currently includes automatic fare collection solutions and intelligent transportation systems solutions.

Set out below is a summary of the consolidated financial information on the Group for the six months ended 30 June 2015, the six months ended 30 June 2016 and each of the two years ended 31 December 2015 as extracted from the interim report of the Company for the six months ended 30 June 2016 (the “2016 Interim Report”) and annual report of the Company for the year ended 31 December 2015 (the “2015 Annual Report”):

	For the six months ended 30 June 2016 <i>HK\$’000</i> (unaudited)	For the six months ended 30 June 2015 <i>HK\$’000</i> (unaudited)	For the year ended 31 December 2015 <i>HK\$’000</i> (audited)	For the year ended 31 December 2014 <i>HK\$’000</i> (audited)
Revenue	57,731	106,920	234,526	246,323
<i>Sale of smart card products, software and hardware</i>	55,928	102,197	232,874	245,529
<i>Smart card related services</i>	1,803	4,723	1,652	794
Gross profit	28,930	53,705	116,239	121,857
Profit/ (loss) for the year/period	(19,863)	9,354	20,304	23,724

As depicted from the above table, the Group recorded revenue and profit of approximately HK\$234.53 million and HK\$20.30 million for the year ended 31 December 2015 (“FY2015”), representing a decrease of approximately 4.79% and 14.42% respectively as compared to those for the year ended 31 December 2014 (“FY2014”). With reference to the 2015 Annual Report, the last quarter of 2015 was marked by global economic downturn. The business climate of the smart card and smart card reader market was conservative compared to other years.

LETTER FROM GRAM CAPITAL

With reference to the 2016 Interim Report, the Group's revenue decreased by approximately 46.01% for the six months ended 30 June 2016 as compared to corresponding period in 2015. The significant decrease in revenue was due to postponement of placement of orders by clients in the first half of 2016 as a result of global economy downturn. The Group's gross profit dropped by approximately 46.13% for the six months ended 30 June 2016 as compared to corresponding period in 2015 as a result of the decrease in revenue. The Group recorded a loss for the six months ended 30 June 2016.

As advised by the Directors, the Group has been exploring new markets and projects in order to diversify its income sources and maintain a sustainable growth in the long term. In anticipation of further demand of EMV (a technical standard for smart payment cards and for payment terminals and automated teller machines that can accept them, while EMV stands for Europay, MasterCard, and Visa, the three companies that originally created the standard) products and services, the Group developed a smart card operating system which can be applied for EMV bank card payments and an all-in-one banking POS (point of sales) terminals for payments using EMV bank card. These products will be launched to the market upon receipt of respective certifications.

With reference to the latest statistics published by EMVCo (www.emvco.com), a consortium with control split equally among Visa, MasterCard, JCB, American Express, China UnionPay, and Discover, approximately 42.4% of card-present transactions are EMV globally for the year ended 30 June 2016 (previous year: 33%). The percentage of card-present transactions that are EMV represented increased for the year ended 30 June 2016 as compared to the previous year in regions including Asia, the United States, Europe, Africa and the Middle East, and Canada, Latin America and the Caribbean.

With reference the figures released by Smart Payment Association (www.smartpaymentassociation.com) on 27 April 2016, approximately 2,060 million payment chip cards were shipped globally in 2015, representing an increase of approximately 34% as compared to the previous year. According to the website of the Smart Payment Association, it is a non-profit organization founded in 2004 by Giesecke & Devrient, Gemalto and Oberthur Technologies, which are sizeable international technology (including secure payment technology) providers. The Smart Payment Association offers leadership and expert guidance to help its members and their financial institution customers realize the opportunities of smart, secure and personalised payment systems & services. Its membership represents the complete card issuance value chain, from card manufacturers, through operating system and application developers, to personalization and post issuance companies.

The above statistics may indicate growing potential of the smart card industry. Nevertheless, having considered (i) that the Group's EMV products and services are still under development; and (ii) the historical financial performance of the Group as aforementioned (in particular, the Group's gross profit dropped by approximately 46% for the six months ended 30 June 2016 as compared to corresponding period in 2015 as a result of the decrease in revenue and the Group recorded a loss for the six months ended 30 June 2016), it is uncertain as to whether the Group can make a turnaround in its loss-making position in foreseeable future.

LETTER FROM GRAM CAPITAL

(3) Information on the Offeror

To provide Offer Shareholders with basic information on the background of the Offeror, set out below is the key information on the Offeror as extracted from the “Letter from Fortune Securities” of the Composite Document:

The Offeror was incorporated in the Cayman Islands on 12 December 2016 as an exempt company with limited liability and is an investment holding company established for the purpose of holding the Sale Shares and any Shares to be acquired under the Offer. To the best of the directors of the Offeror’s knowledge, information and belief, HNA Group is held as to 30% by Yangpu Jianyun Investments Company Limited* (洋浦建運投資有限公司) and 70% by Hainan Traffic Administration Holding Co. Ltd.* (海南交管控股有限公司), which is in turn held as to 50% by Tang Dynasty Development (Yangpu) Company Limited* (盛唐發展(洋浦)有限公司). Tang Dynasty Development (Yangpu) Company Limited* (盛唐發展(洋浦)有限公司) is held as to 65% by Hainan Province Cihang Foundation* (海南省慈航公益基金會) and 35% by Tang Dynasty Development Company Limited* (盛唐發展有限公司). HNA Group is a PRC conglomerate encompassing core divisions of tourism, holding, capital, logistics and ecotechnology. According to the Fortune Global 500 ranking released by the U.S. “Fortune” magazine in 2015, HNA Group ranked No. 464 among all companies in the world, with an annual revenue of over US\$25.6 billion. In July 2016, HNA Group was listed among Fortune Global 500 once again, ranking No. 353 with annual revenue of approximately US\$29.56 billion. The ranking rose by 111 positions compared with the previous year. Immediately prior to the entering into the Sale and Purchase Agreement, the Offeror and parties acting in concert with it did not hold any securities of the Company, and were independent of the Company and its connected persons.

Please refer to diagram of the shareholding structure of HNA Group as set out under the section headed “Information on the Offeror” in the “Letter from Fortune Securities” of the Composite Document for further details of the relationship between the Offeror and HNA Group.

(4) Intentions of the Offeror in relation to the Group

To provide Offer Shareholders with information on the intentions of the Offeror, set out below is the Offeror’s intentions on the Group’s business and Board composition as extracted from the “Letter from Fortune Securities” of the Composite Document:

The Offeror intends that the Group will continue with its existing businesses. The Offeror will also conduct a review on the business operations and financial position of the Group for the purpose of formulating business plans and strategies for the future business development of the Group. Subject to the results of the review, the Offeror 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.

The board of directors of the Company is currently made up of six Directors, comprising of three executive Directors and three independent non-executive Directors. It is currently expected that the Offeror will require two executive Directors to resign from the board of directors of the Company, and the Offeror will nominate new Directors to be appointed to the board of directors of the Company at the earliest time as allowed under the Takeovers Code. Any such resignation and appointment will be made in compliance with the Takeovers Code and the Listing Rules. Further announcement(s) will be made upon any appointment of new Directors.

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Save as the Offeror's intention regarding the Group as set out above and the potential changes to the members of the board of directors of the Company, the Offeror has no intention to (i) discontinue the employment of any employees of the Group; or (ii) redeploy the fixed assets of the Company other than those in its ordinary and usual course of business.

(5) The Offer Price

Offer Price comparison

The Offer Price of HK\$2.66 per Offer Share represents:

- (i) the closing price of HK\$2.66 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- (ii) a premium of approximately 72.7% over the closing price of HK\$1.54 per Share as quoted on the Stock Exchange on 2 December 2016, being the last business day prior to the commencement of the Offer Period;
- (iii) a premium of approximately 17.7% over the closing price of HK\$2.26 per Share as quoted on the Stock Exchange on 9 January 2017, being the Last Trading Day;
- (iv) a premium of approximately 15.5% over the average closing price of approximately HK\$2.30 per Share as quoted on the Stock Exchange for the five consecutive trading days immediately prior to and including the Last Trading Day;
- (v) a premium of approximately 12.9% over the average closing price of approximately HK\$2.36 per Share as quoted on the Stock Exchange for the 10 consecutive trading days immediately prior to and including the Last Trading Day;
- (vi) a premium of approximately 31.4% over the average closing price of approximately HK\$2.02 per Share as quoted on the Stock Exchange for the 30 consecutive trading days immediately prior to and including the Last Trading Day;
- (vii) a premium of approximately 549.6% over the audited consolidated net asset value per Share of approximately HK\$0.41 as at 31 December 2015 (being the date to which the latest audited consolidated annual results of the Group were made up), calculated based on the Group's audited consolidated net assets of approximately HK\$130.85 million as at 31 December 2015 and 319,564,892 Shares in issue as at the Latest Practicable Date; and
- (viii) a premium of approximately 688.7% over the unaudited consolidated net asset value per Share of approximately HK\$0.34 as at 30 June 2016 (being the date to which the latest unaudited consolidated interim results of the Group were made up), calculated based on the Group's unaudited consolidated net assets of approximately HK\$107.78 million as at 30 June 2016 and 319,564,892 Shares in issue as at the Latest Practicable Date.

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Historical price performance of the Shares

Set out below is a chart showing the movement of the closing prices of the Shares during the period from 4 January 2016 up to the Latest Practicable Date (the “**Review Period**”), to illustrate the general trend and level of movement of the closing prices of the Shares.



Source: the Stock Exchange web-site (www.hkex.com.hk)

Notes:

- (i) The closing prices of the Shares from 4 January 2016 to 13 October 2016 were adjusted for the effect of the rights issue, on the basis of one rights share for every eight shares held on the record date, as announced by the Company on 23 September 2016.
- (ii) Trading in Shares was halted during the morning session of 5 December 2016.
- (iii) Trading in Shares was halted from 10 January 2017 to 12 January 2017.

During the Review Period, the highest and lowest closing prices of the Shares as quoted on the Stock Exchange were HK\$2.67 per Share recorded on 19 January 2017 and HK\$1.332 recorded on 7 July 2016 respectively. The Offer Price of HK\$2.66 is slightly lower than the highest closing price of the Shares as quoted on the Stock Exchange during the Review Period.

The closing prices of the Shares rose from HK\$1.679 on 4 January 2016 to HK\$2.075 on 8 January 2016. Since then the closing prices of Shares were on a decreasing trend, reaching HK\$1.4 on 1 February 2016. The Directors advised us that they are not aware of any affirmative reasons for the aforesaid movements in the closing prices of the Shares. From 1 February 2016 to 2 December 2016, being the last trading day immediately prior to the date of commencement of the Offer Period, the closing prices of Shares fluctuated between HK\$1.332 and HK\$1.892.

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On 5 December 2016, the Company published an announcement in relation to the memorandum of understanding regarding the Acquisition (the “**R3.7 Announcement**”). Ever since the commencement of the Offer Period on 5 December 2016, the closing prices of the Shares had surged, reaching HK\$2.26 as at the Last Trading Day.

The Offer Price of HK\$2.66 is higher than the closing prices of the Shares during the period from 4 January 2016 up to the Last Trading Day.

After the publication of the Joint Announcement dated 12 January 2017, the closing price of Shares rose to HK\$2.61 as at 13 January 2017. From 13 January 2017 up to and including the Latest Practicable Date, the closing prices of Shares were relatively stable.

Historical trading liquidity of the Shares

The number of trading days, the average daily number of the Shares traded per month, and the respective percentages of the Shares’ monthly trading volume as compared to (i) the total number of issued Shares held by the public as at the Latest Practicable Date; and (ii) the total number of issued Shares as at the Latest Practicable Date during the Review Period are tabulated as below:

Month	Number of trading days	Average daily trading volume (the “Average Volume”) <i>Number of Shares</i>	% of the Average Volume to total number of issued Shares held by the public as at the Latest Practicable Date <i>(Note 1)</i> %	% of the Average Volume to total number of issued Shares as at the Latest Practicable Date <i>(Note 2)</i> %
2016				
January	20	2,854,350	2.32	0.89
February	18	205,500	0.17	0.06
March	21	673,078	0.55	0.21
April	20	385,763	0.31	0.12
May	21	245,673	0.20	0.08
June	21	130,286	0.11	0.04
July	20	103,050	0.08	0.03
August	22	194,727	0.16	0.06
September	21	206,171	0.17	0.06
October	19	193,670	0.16	0.06
November	22	338,541	0.28	0.11
December	20	2,192,233	1.78	0.69

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Month	Number of trading days	Average daily trading volume (the "Average Volume") <i>Number of Shares</i>	% of the Average Volume to total number of issued Shares held by the public as at the Latest Practicable Date <i>(Note 1)</i> %	% of the Average Volume to total number of issued Shares as at the Latest Practicable Date <i>(Note 2)</i> %
2017				
January	16	2,425,001	1.97	0.76
February (up to and including the Latest Practicable Date)	18	792,251	0.64	0.25

Source: the Stock Exchange web-site (www.hkex.com.hk)

Notes:

1. Based on 122,943,497 Shares held by the public as at the Latest Practicable Date.
2. Based on 319,564,892 Shares in issue as at the Latest Practicable Date.
3. Trading in Shares was halted during the morning session of 5 December 2016.
4. Trading in Shares was halted from 10 January 2017 to 12 January 2017.
5. Trading volume from 4 January 2016 to 13 October 2016 was adjusted for the effect of the rights issue, on the basis of one rights share for every eight shares held on the record date, as announced by the Company on 23 September 2016.

We noted from the above table that the average daily trading volume of the Shares were generally thin within the Review Period. During the Review Period, the average daily trading volume of the Shares was (i) below 1% of the total number of issued Shares held by the public as at the Latest Practicable Date (except for January 2016, December 2016 and January 2017); and (ii) below 1% of the total number of issued Shares as at the Latest Practicable Date. As confirmed by the Directors, (i) they are not aware of any affirmative reasons for the comparatively high Average Volume in January 2016; and (ii) the comparatively high Average Volume during December 2016 and January 2017 may be related to the publication of the R3.7 Announcement and Joint Announcement, and may or may not continue after the Closing Date. In light of that the Shares are highly illiquid during the Review Period (except for January 2016, December 2016 and January 2017), we consider that the disposal of large block of Shares held by the Shareholders in the open market may trigger price slump of the Shares.

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Having also taken into account that there is no guarantee that the Share price will sustain at a level above or close to the Offer Price after the Closing Date, we are of the view that Offer Shareholders (especially those with relatively sizeable shareholdings) may not be able to realise their investments in the Shares at a price higher than or close to the Offer Price, in particular when they are going to dispose of their entire holdings. We, therefore, consider that the Offer provides an exit alternative with the Offer Price being fair and reasonable for the Offer Shareholders who would like to realise their investments in the Shares.

Nonetheless, if any Offer Shareholders who would like to realise their investments in the Shares are able to dispose of their Shares in the open market and/or identify potential purchaser(s) to acquire their Shares at a price higher than the Offer Price, those Offer Shareholders may consider not accepting the Offer but selling their Shares in the open market and/or to such potential purchaser(s), as they wish to do so and as they think fit having regard to their own circumstances, in case the net proceeds from the sale of their Shares would exceed the net amount receivable under the Offer.

Furthermore, those Offer Shareholders who, after reading through the 2016 Interim Report, 2015 Annual Report and the Composite Document, are optimistic about the future financial performance of the Group after the Offer, may, having regard to their own circumstances, consider retaining all or any part of their Shares.

Accordingly, Offer Shareholders should closely monitor the market price and liquidity of the Shares during the Offer Period and carefully consider the relevant risks and uncertainties based on their individual risk preference and tolerance level. Those Offer Shareholders who decide to retain part or all of their investments in the Shares should also carefully monitor the financial performance of the Group as well as the intentions of the Offeror in relation to the Company in the future, and the potential difficulties they may encounter in disposing of their investments in the Shares after the close of the Offer.

Comparison with other comparable companies

We noted that trading multiples analysis is a commonly adopted method for the purpose of assessing the fairness and reasonableness of the Offer Price. In this regard, we have researched for Hong Kong listed companies which are principally engaged in similar line of businesses as the Group, being the development, sales and distribution of smart card products, software and hardware and the provision of smart card related services and the majority of revenue are generated from such two major businesses. However, to the best of our knowledge and as far as we are aware of, we could only find Goldpac Group Limited (Stock code: 3315) which can meet our selection criteria. Given the sample size, we consider that the trading multiples analysis is impracticable in this case.

RECOMMENDATION

Having considered the principal factors and reasons as discussed above, in particular:

- (i) the deteriorated financial performance of the Group for FY2015 and the six months ended 30 June 2016 as demonstrated under the section headed “(2) Financial information on the Group” of this letter;

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- (ii) the Offer Price of HK\$2.66 is slightly lower than the highest closing price of the Shares as quoted on the Stock Exchange during the Review Period;
- (iii) the Offer Price of HK\$2.66 is higher than the closing prices of the Shares during the period from 4 January 2016 up to the Last Trading Day;
- (iv) given the trend of the closing prices of the Shares before the Offer Period, there is no guarantee that the Share price will sustain at a level above or close to the Offer Price after the Closing Date; and
- (v) disposal of large block of Shares held by the Offer Shareholders in the open market may trigger price slump of the Shares considering the generally thin trading volume of the Shares in the Review Period (except for January 2016, December 2016 and January 2017),

we consider that the terms of the Offer (including the Offer Price) are fair and reasonable. Accordingly, we recommend the Independent Board Committee to advise the Offer Shareholders to accept the Offer.

However, given that the Offer Price is close to the recent market prices of the Shares (including but not limited to the closing price of the Shares as at the Latest Practicable Date), we would also like to remind the Independent Board Committee to remind the Offer Shareholders to closely monitor the market price and liquidity of the Shares during the Offer Period, and consider selling their Shares in the open market, where possible, instead of accepting the Offer, if the net proceeds from such sales exceed the net amount receivable under the Offer.

Those Offer Shareholders who decide to retain part or all of their investments in the Shares should carefully monitor the intentions of the Offeror in relation to the Company in the future and the potential difficulties they may encounter in disposing of their investments in the Shares after the close of the Offer. Further terms and conditions of the Offer are set out in the “Letter from Fortune Securities” of and Appendix I to the Composite Document.

As different Shareholders would have different investment criteria, objectives and/or circumstances, we would recommend any Shareholders who may require advice in relation to any aspect of the Composite Document, or as to the action to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

* *For identification purpose only*

1. GENERAL PROCEDURES FOR ACCEPTANCE OF THE OFFER

To accept the Offer, you should complete and sign the accompanying Form(s) of Acceptance and Transfer in accordance with the instructions printed thereon, which instructions form part of the terms of the Offer.

- (a) If the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Share(s) is/are in your name, and you wish to accept the Offer, you must send the duly completed Form(s) of Acceptance and Transfer together with the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), by post or by hand, to the Registrar at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong in an envelope marked “**Advanced Card Systems Offer**” to be received by the Registrar no later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offeror may determine and the Offeror and the Company may jointly announce with the consent of the Executive in accordance with the Takeovers Code.

- (b) If the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the Offer in respect of your Shares, you must either:
 - (i) lodge your share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorising it to accept the Offer on your behalf and requesting it to deliver the duly completed Form(s) of Acceptance and Transfer together with the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or
 - (ii) arrange for the Shares to be registered in your name by the Company through the Registrar, and send the duly completed Form(s) of Acceptance and Transfer together with the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or
 - (iii) if your Shares have been lodged with your licensed securities dealer/registered institution in securities/custodian bank through CCASS, instruct your licensed securities dealer/registered institution in securities/custodian bank to authorise HKSCC Nominees Limited to accept the Offer on your behalf on or before the deadline set by HKSCC Nominees Limited (which is normally one Business Day before the latest date on which acceptances of the Offer must be received by the Registrar). In order to meet the deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer/registered

institution in securities/custodian bank for the timing on processing of your instruction, and submit your instruction to your licensed securities dealer/registered institution in securities/custodian bank as required by them; or

- (iv) if your Shares have been lodged with your investor participant's account maintained with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set by HKSCC Nominees Limited (which is normally one Business Day before the latest date on which acceptances of the Offer must be received by the Registrar).
- (c) If the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are not readily available and/or is/are lost and you wish to accept the Offer in respect of your Shares, the Form(s) of Acceptance and Transfer should nevertheless be completed and delivered to the Registrar together with a letter stating that you have lost one or more of your share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) should be forwarded to the Registrar as soon as possible thereafter. If you have lost your share certificate(s), you should also write to the Registrar for a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.
- (d) If you have lodged transfer(s) of any of your Shares for registration in your name and have not yet received your share certificate(s), and you wish to accept the Offer in respect of your Shares, you should nevertheless complete the Form(s) of Acceptance and Transfer and deliver it to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will be deemed to be an irrevocable authority to Fortune Securities and/or the Offeror or their respective agent(s) to collect from the Registrar on your behalf the relevant share certificate(s) when issued and to deliver such certificate(s) to the Registrar as if it was/they were delivered to the Registrar with the Form(s) of Acceptance and Transfer.
- (e) Acceptance of the Offer will be treated as valid only if the completed Form(s) of Acceptance and Transfer is received by the Registrar no later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offeror may determine and announce with the consent of the Executive in accordance to the Takeovers Code and the Registrar has recorded that the acceptance and the relevant documents as required under this paragraph have been so received, and is:
 - (i) accompanied by the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if the share certificate(s) is/are not in your name, such other documents in order to establish your right to become the registered holder of the relevant Shares; or

- (ii) from a registered Shareholder or his personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to Shares which are not taken into account under another sub-paragraph of this paragraph (e)); or
 - (iii) certified by the Registrar or the Stock Exchange.
- (f) If the Form(s) of Acceptance and Transfer is executed by a person other than the registered Shareholder, appropriate documentary evidence of authority to the satisfaction of the Registrar must be produced.
- (g) Seller's Hong Kong ad valorem stamp duty arising in connection with acceptance of the Offer amounting to HK\$1.00 for every HK\$1,000 or part thereof of the amount payable in respect of relevant acceptances by the Offer Shareholders, or (if higher) the value of the Shares as determined by the Collector of Stamp Revenue under the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong), will be deducted from the amount payable to the Offer Shareholders who accept the Offer. The Offeror will then pay the Hong Kong stamp duty so deducted to the Stamp Office. The Offeror will bear buyer's Hong Kong ad valorem stamp duty.
- (h) No acknowledgement of receipt of any Form(s) of Acceptance and Transfer, share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

2. ACCEPTANCE PERIOD AND REVISIONS

- (a) Unless the Offer has previously been revised or extended, with the consent of the Executive, in accordance with the Takeovers Code, the Form(s) of Acceptance and Transfer must be received by 4:00 p.m. on the Closing Date in accordance with the instructions printed on the relevant Form(s) of Acceptance and Transfer, and the Offer will be closed on the Closing Date.
- (b) The Offeror and the Company will jointly issue an announcement through the websites of the Stock Exchange and the Company no later than 7:00 p.m. on the Closing Date stating whether the Offer has been extended, revised or has expired.
- (c) In the event that the Offeror decides to extend the Offer, at least fourteen (14) days' notice by way of announcement will be given, before the latest time and date for acceptance of the Offer, to those Offer Shareholders who have not accepted the Offer.
- (d) If the Offeror revises the terms of the Offer, all Offer Shareholders, whether or not they have already accepted the Offer will be entitled to the revised terms. The revised Offer must be kept open for at least fourteen (14) days following the date on which the revised offer document is posted.

- (e) If the Closing Date of the Offer is extended, any reference in this Composite Document and in the Form(s) of Acceptance and Transfer to the Closing Date shall, except where the context otherwise requires, be deemed to refer to the Closing Date of the Offer so extended.

3. ANNOUNCEMENT

- (a) As required under Rule 19 of the Takeovers Code, by 6:00 p.m. on the Closing Date (or such later time and/or date as the Executive may in exceptional circumstances permit), the Offeror must inform the Executive and the Stock Exchange of its decision in relation to the revision, extension or expiry of the Offer. The Offeror must publish an announcement in accordance with the requirements of the Takeovers Code and the Listing Rules by 7:00 p.m. on the Closing Date stating whether the Offer has been extended, revised or has expired.

Such announcement must state the following:

- (i) the total number of Shares and rights over Shares for which acceptances of the Offer have been received;
 - (ii) the total number of Shares and rights over Shares held, controlled or directed by the Offeror and parties acting in concert with any of them before the Offer Period;
 - (iii) the total number of Shares and rights over Shares acquired or agreed to be acquired by the Offeror and parties acting in concert with any of them during the Offer Period;
 - (iv) details of any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which the Offeror and parties acting in concert with any of them has borrowed or lent, save for any borrowed securities which have been either on-lent or sold; and
 - (v) the percentages of the relevant classes of issued share capital of the Company and the percentages of voting rights of the Company represented by these numbers.
- (b) In computing the total number of Shares represented by acceptances, only valid acceptances in complete and good order and which have been received by the Registrar no later than 4:00 p.m. on the Closing Date, being the latest time and date for acceptance of the Offer, shall be included.
 - (c) As required under the Takeovers Code and the Listing Rules, any announcement in relation to the Offer, in respect of which the Executive has confirmed that it has no further comments, will be published on the website of the Stock Exchange and the website of the Company (www.acs.com.hk).

4. RIGHT OF WITHDRAWAL

- (a) Acceptance of the Offer tendered by the Offer Shareholders shall be irrevocable and cannot be withdrawn, except in the circumstances set out in subparagraph (b) below.

- (b) If the Offeror is unable to comply with the requirements set out in paragraph of this Appendix I headed “3. Announcement” above, the Executive may require pursuant to Rule 19.2 of the Takeovers Code that the Offer Shareholders who have tendered acceptance to the Offer be granted a right of withdrawal on terms that are acceptable to the Executive until the requirement of Rule 19 of the Takeovers Code can be met.

In such case, when the Offer Shareholders withdraw their acceptance(s), the Offeror shall, as soon as possible but in any event within ten (10) days thereof, return by ordinary post the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) lodged with the Form(s) of Acceptance and Transfer to the relevant Offer Shareholder(s).

5. SETTLEMENT OF THE OFFER

Provided that the accompanying Form(s) of Acceptance and Transfer for the Shares, together with the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are valid, complete and in good order and have been received by the Registrar no later than 4:00 p.m. on the Closing Date, a cheque for the amount due to each of the accepting Offer Shareholder in respect of the Shares tendered under the Offer (less seller’s Hong Kong ad valorem stamp duty payable by him) will be despatched to the accepting Offer Shareholder by ordinary post at his own risk as soon as possible but in any event within seven (7) Business Days from the date of receipt of all relevant documents to render such acceptance complete and valid by the Registrar in accordance with the Takeovers Code.

Settlement of the consideration to which any accepting Offer Shareholder is entitled under the Offer will be paid by the Offeror in full in accordance with the terms of the Offer (save with respect to the payment of seller’s Hong Kong ad valorem stamp duty) set out in this Composite Document (including this appendix I) and the accompanying Form(s) of Acceptance and Transfer, without regard to any liens, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Offer Shareholder.

6. OVERSEAS SHAREHOLDERS

The making of the Offer to the Overseas Shareholders may be prohibited or affected by the laws of the relevant jurisdictions. Overseas Shareholders should observe all applicable legal and regulatory requirements and obtain appropriate legal advice regarding the implications of the Offer in the relevant jurisdictions or keep themselves informed about and observe any applicable legal or regulatory requirements. It is the responsibility of Overseas Shareholders who wish to accept the Offer to satisfy themselves as to the full observance of the laws and regulations of all relevant jurisdictions in connection with the acceptance of the Offer (including but not limited to the obtaining of any governmental, exchange control or other consents and any registration or filing

which may be required, and the compliance with all other necessary formalities, regulatory and/or legal requirements and the payment of any transfer or other taxes). The Offeror, the Company, their respective ultimate beneficial owners and parties acting in concert, Fortune Securities, Fortune Financial, Gram Capital, the Registrar or any of their respective directors, officers, advisers, associates, agents or any persons involved in the Offer shall be entitled to be fully indemnified and held harmless by the Overseas Shareholders for any taxes they may be required to pay. Acceptance of the Offer by any Overseas Shareholder will be deemed to constitute a warranty by such person that such person is permitted under all applicable laws and regulations to receive and accept the Offer, and any revision thereof, and such acceptance shall be valid and binding in accordance with all applicable laws and regulations. Any such person is recommended to seek professional advice on deciding whether or not to accept the Offer.

7. TAX IMPLICATIONS

Offer Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Offer. It is emphasised that none of the Offeror, the Company, their respective ultimate beneficial owners and parties acting in concert, Fortune Securities, Fortune Financial, Gram Capital, the Registrar or any of their respective directors, officers, advisers, associates, agents or any persons involved in the Offer is in a position to advise the Offer Shareholders on their individual tax implications, nor do they accept responsibility for any taxation effects on, or liabilities of, any person or persons as a result of their acceptance or rejection of the Offer.

8. GENERAL

- (a) All communications, notices, Form(s) of Acceptance and Transfer, certificates, transfer receipts and other documents of title and/or of indemnity and/or of any other nature to be delivered by or sent to or from the Offer Shareholders will be delivered by or sent to or from them, or their designated agents, by ordinary post at their own risk, and none of the Company, the Offeror, their respective ultimate beneficial owners and parties acting in concert, Fortune Securities, Fortune Financial, Gram Capital, the Registrar or any of their respective directors, officers, advisers, associates, agents or any persons involved in the Offer accepts any liability for any loss or any other liabilities whatsoever which may arise as a result thereof.
- (b) Acceptance of the Offer by any person or persons will be deemed to constitute a warranty by such person or persons to the Offeror and Fortune Securities that the Shares tendered under the Offer (together with all rights accruing or attaching to them as at the date of this Composite Document or subsequently being attached to them, including, without limitation, the rights to receive all future dividends and other distributions, declared, made or paid, if any, by the Company on or after the date on which the Offer is made, i.e., the date of this Composite Document) are sold by such person or persons free from all Encumbrances.
- (c) Acceptance of the Offer by any nominee will be deemed to constitute a warranty by such nominee to the Offeror that the number of Shares in respect of which it is indicated in the Form(s) of Acceptance and Transfer is the aggregate number of Shares held by such nominee for such beneficial owners who accept the Offer.

APPENDIX I FURTHER TERMS OF ACCEPTANCE OF THE OFFER

- (d) The provisions set out in the accompanying Form(s) of Acceptance and Transfer form part of the terms of the Offer.
- (e) The accidental omission to despatch this Composite Document and/or the accompanying Form(s) of Acceptance and Transfer or either of them to any person to whom the Offer is made shall not invalidate the Offer in any way.
- (f) The Offer and all acceptances will be governed by and construed in accordance with the laws of Hong Kong.
- (g) Due execution of Form(s) of Acceptance and Transfer will constitute an authority to the Offeror and/or Fortune Securities and/or such person or persons as any of them may direct to complete and execute on behalf of the person accepting the Offer, and to do any other act that may be necessary or expedient for the purpose of vesting in the Offeror, or such person or persons as it may direct the Shares in respect of which such person has accepted the Offer.
- (h) The Offer is made in accordance with the Takeovers Code.
- (i) References to the Offer in this Composite Document and in the Form(s) of the Acceptance and Transfer shall include any extension and/or revision thereof.
- (j) The English text of this Composite Document and of the accompanying Form(s) of Acceptance and Transfer shall prevail over the Chinese text in case of inconsistency.

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

The following table is a summary of certain audited consolidated financial information of the Group for the three financial years ended 31 December 2015 as extracted from the annual reports of the Company for the years ended 31 December 2014 and 2015 respectively, and certain unaudited consolidated financial information of the Group for the six months ended 30 June 2016 as extracted from the interim report of the Company for the six months ended 30 June 2016.

	For the six months ended 30 June 2016	For the year ended 31 December		
	<i>HK\$'000 (unaudited)</i>	<i>2015 HK\$'000 (audited)</i>	<i>2014 HK\$'000 (audited)</i>	<i>2013 HK\$'000 (audited)</i>
Revenue	57,731	234,526	246,323	194,360
(Loss)/Profit before taxation	(22,612)	22,251	26,579	27,228
Income tax	2,749	(1,947)	(2,855)	(4,025)
(Loss)/Profit for the year attributable to the equity shareholders of the Company	(19,863)	20,304	23,724	23,203
Dividend	–	2,841	5,681	5,681
(Losses)/Earnings per Share (HK cents)				
– Basic	(6.993)	7.148	8.352	8.168
– Diluted	(6.993)	7.148	8.352	8.168
Dividend per Share (HK cents)	–	1.0	2.0	2.0

Except for the payment of benefit under life insurance policy for the year ended 31 December 2015, the Group had no exceptional or extraordinary items which were exceptional because of its size, nature or incidence for each of the three years ended 31 December 2013, 2014 and 2015, as well as for the six months ended 30 June 2016 respectively.

No qualified opinion in respect of the consolidated financial statements of the Group for the years ended 31 December 2013, 2014 and 2015 has been issued by the auditors of the Company.

2. AUDITED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

The following is the full text of the audited consolidated financial statements of the Group for the year ended 31 December 2015 extracted from the annual report of the Company for the year ended 31 December 2015:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2015

(Expressed in Hong Kong dollars)

	<i>Note</i>	2015 \$'000	2014 \$'000
Revenue	4	234,526	246,323
Cost of sales		<u>(118,287)</u>	<u>(124,466)</u>
Gross profit		116,239	121,857
Other income	5	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	6(a)	(784)	(612)
Share of results of a joint venture		<u>(1,358)</u>	<u>(205)</u>
Profit before taxation	6	22,251	26,579
Income tax	7(a)	<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	11		
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 OTHER
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>10</i>		
<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		(828)	(559)
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)*

	<i>Note</i>	2015 \$'000	2014 \$'000
Non-current assets			
Plant and equipment	<i>12</i>	6,295	7,763
Intangible assets	<i>13</i>	47,248	42,875
Goodwill	<i>14</i>	1,972	1,972
Interest in a joint venture	<i>16</i>	2,008	2,512
Prepayment for available-for-sale securities		377	377
Deferred tax assets	<i>24(b)</i>	489	915
		<u>58,389</u>	<u>56,414</u>
Current assets			
Inventories	<i>17</i>	34,548	40,118
Trade and other receivables	<i>18</i>	78,480	54,129
Held-to-maturity financial assets	<i>19</i>	730	69
Current tax recoverable	<i>24(a)</i>	2,517	986
Cash and cash equivalents	<i>20(a)</i>	38,941	35,671
		<u>155,216</u>	<u>130,973</u>
Current liabilities			
Trade and other payables	<i>21</i>	35,384	30,819
Bank loans and overdrafts	<i>22</i>	43,591	35,336
Current tax payable	<i>24(a)</i>	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	<i>23</i>	814	737
Deferred tax liabilities	<i>24(b)</i>	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	<i>25(c)</i>	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>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

(Expressed in Hong Kong dollars)

		Share capital	Share premium	Merger reserve	Surplus reserve	Exchange reserve	Retained profits	Total equity
	Note	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
		(Note 25(c))	(Note 25(d)(i))	(Note 25(d)(ii))	(Note 25(d)(iii))	(Note 25(d)(iv))		
Balance at 1 January 2014		28,406	17,955	4,496	-	1,706	47,384	99,947
Changes in equity for the year:								
Profit for the year		-	-	-	-	-	23,724	23,724
Other comprehensive income	10	-	-	-	-	(559)	(344)	(903)
Total comprehensive income		-	-	-	-	(559)	23,380	22,821
Final dividend approved in respect of the previous year	25(b)	-	-	-	-	-	(5,681)	(5,681)
Balance at 31 December 2014		28,406	17,955	4,496	-	1,147	65,083	117,087
Balance at 1 January 2015		28,406	17,955	4,496	-	1,147	65,083	117,087
Changes in equity for the year:								
Profit for the year		-	-	-	-	-	20,304	20,304
Other comprehensive income	10	-	-	-	-	(828)	(32)	(860)
Total comprehensive income		-	-	-	-	(828)	20,272	19,444
Appropriation to surplus reserve		-	-	-	1,082	-	(1,082)	-
Final dividend approved in respect of the previous year	25(b)	-	-	-	-	-	(5,681)	(5,681)
Balance at 31 December 2015		28,406	17,955	4,496	1,082	319	78,592	130,850

CONSOLIDATED CASH FLOW STATEMENT*For the year ended 31 December 2015**(Expressed in Hong Kong dollars)*

	<i>Note</i>	2015 \$'000	2014 \$'000
Operating activities			
Cash generated from operations	20(b)	28,428	25,152
Tax paid:			
– Hong Kong Profits Tax paid		(1,741)	(3,187)
– Tax paid outside Hong Kong		(1,746)	(80)
Net cash generated from operating activities		24,941	21,885
Investing activities			
Payment for the purchase of plant and equipment		(2,521)	(5,009)
Cash advance to a joint venture		(957)	–
Payment for purchases of available-for-sale securities		–	(377)
Payment for purchases of held-to-maturity financial assets		(678)	–
Proceeds from sale of plant and equipment		40	104
Payment to acquire business, net of cash acquired		(3,145)	(3,165)
Expenditure on development projects capitalised		(14,950)	(15,172)
Capital contribution to a joint venture		–	(2,717)
Interest received		67	276
Net cash used in investing activities		(22,144)	(26,060)
Financing activities			
Proceeds from new bank loans		23,872	19,232
Repayment of bank loans		(24,753)	(20,237)
Interest paid		(1,360)	(1,339)
Dividends paid to equity shareholders of the Company		(5,681)	(5,681)
Net cash used in financing activities		(7,922)	(8,025)
Net decrease in cash and cash equivalents		(5,125)	(12,200)
Cash and cash equivalents at 1 January		35,671	48,614
Effect of foreign exchange rate changes		(741)	(743)
Cash and cash equivalents at 31 December	20(a)	29,805	35,671

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

For the year ended 31 December 2015

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, 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 2015 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in a joint venture.

2 SIGNIFICANT ACCOUNTING POLICIES**(a) Statement of compliance**

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. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

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

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

(c) Changes in accounting policies

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 Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended HKFRSs are discussed below:

Amendments to HKAS 19, Employee benefits: Defined benefit plans: Employee contributions

The amendments introduce a relief to reduce the complexity of accounting for certain contributions from employees or third parties under defined benefit plans. When the contributions are eligible for the practical expedient provided by the amendments, a company is allowed to recognise the contributions as a reduction of the service cost in the period in which the related service is rendered, instead of including them in calculating the defined benefit obligation. The amendments do not have an impact on these financial statements as the defined benefit plans operated by the Group are wholly funded by contributions from the Group and do not involve contributions from employees or third parties.

Annual Improvements to HKFRSs 2010-2012 Cycle and 2011-2013 Cycle

These two cycles of annual improvements contain amendments to nine standards with consequential amendments to other standards. Among them, HKAS 24, *Related party disclosures* has been amended to expand the definition of a “related party” to include a management entity that provides key management personnel services to the reporting entity, and to require the disclosure of the amounts incurred for obtaining the key management personnel services provided by the management entity. These amendments do not have an impact on the Group’s related party disclosures as the Group does not obtain key management personnel services from management entities.

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Group’s interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see note 2(e)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(k)(ii)).

(e) Joint ventures

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(f) and (k)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In all other cases, when the Group ceases to have joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(g)).

(f) Goodwill

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(k)(ii)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(g) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries and joint ventures, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below.

Dated debt securities that the Group has the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated at amortised cost less impairment losses (see note 2(k)(i)).

(h) Plant and equipment

Plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see note 2(k)(ii)).

Gains or losses arising from the retirement or disposal of an item of plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Leasehold improvements	Over the remaining of the leases
– Furniture and fixtures	4 years
– Computer and office equipment	4 years
– Mould	4 years
– Motor vehicles	4 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(i) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 2(v)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(k)(ii)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (note 2(k)(ii)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

– Customer relationships	7 years
– Development costs	4 years
– Technical know-how	4 years

Both the period and method of amortisation are reviewed annually.

(j) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(k) Impairment of assets

(i) *Impairment of investments in debt and equity securities and other receivables*

Investment in debt and other current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investment in a joint venture accounted for under equity method in the consolidated financial statements (see note 2(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(k)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(k)(ii).
- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial assets where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

- For trade and other receivables carried at cost or amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of the assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) *Impairment of other assets*

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- plant and equipment;
- intangible assets;
- goodwill;
- interest in a joint venture; and
- investment in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(l) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(k)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(o) **Trade and other payables**

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) **Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(q) **Employee benefits**

(i) *Short term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) *Defined benefit retirement plan obligations*

The Group's net obligation in respect of a defined benefit retirement plan is calculated by estimating the amount of future benefit that employees have earned in return for their services in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Service cost and net interest expense/(income) on the net defined benefit liability/(asset) are recognised in profit and loss and allocated by function as part of "cost of sales", "selling and distribution costs", "research and development expenses" or "administrative expenses". Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in profit and loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. Net interest expense/(income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability/(asset). The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations.

Remeasurements arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability/(asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability/(asset)).

(r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(s) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue from the sales of goods (including smart card products, software and hardware) is recognised when the goods are delivered and the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Service fees

Service fees are recognised when the related services are provided. Service fees exclude value added tax or other sales taxes.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(u) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of subsidiaries outside Hong Kong are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations outside Hong Kong acquired on or after 1 January 2015, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2015 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation outside Hong Kong, the cumulative amount of the exchange differences relating to that subsidiary outside Hong Kong is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

Foreign exchange gains and losses arising from monetary items that in substance form part of the net investment in an operation outside Hong Kong, together with any related tax, are reclassified to equity on consolidation.

(v) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing cost, as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(w) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
- (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group.

- (b) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group.

Close family members of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(x) **Segment reporting**

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

Notes 14 and 23 contain information about the assumptions and their risk factors relating to goodwill impairment assessment and defined benefit retirement obligations. Other key sources of estimation uncertainty are as follows:

(a) **Impairment of plant and equipment and intangible assets**

If circumstances indicate that the carrying values of plant and equipment and intangible assets may not be recoverable, the assets may be considered "impaired", and an impairment loss may be recognised in accordance with HKAS 36, *Impairment of assets*. Under HKAS 36, these assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of its fair value less costs of disposal and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, selling prices and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount. However, actual sales volumes, selling prices and operating costs may be different from

assumptions which may require a material adjustment to the carrying amount of the assets affected. Details of the nature and carrying amounts of plant and equipment and intangible assets are disclosed in notes 12 and 13, respectively.

(b) Depreciation and amortisation

Plant and equipment and intangible assets (see notes 12 and 13) are depreciated and amortised on a straight-line basis over their estimated useful lives, after taking into account the estimated residual values, if any. The Group reviews the estimated useful lives and the estimated residual values, if any, of the assets at least annually in order to determine the amount of depreciation and amortisation expenses to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortisation expenses for future periods is adjusted if there are significant changes from previous estimates.

(c) Impairment loss for doubtful debts

The Group maintains an allowance for doubtful debts for estimated losses resulting from the inability of the debtors to make required payments. The Group estimates the future cash flows based on the ageing of the trade receivables balance as disclosed in note 18, debtors' credit-worthiness, and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimated.

(d) Write down of inventories

The Group performs regular reviews of the carrying amounts of inventories as disclosed in note 17 with reference to historical consumption, expected future consumption and management judgement. Based on these reviews, write down of inventories will be made when the estimated net realisable value of inventories decline below the carrying amount. However, actual consumption may be different from estimation and profit or loss could be affected by differences in this estimation.

(e) Deferred tax assets

Deferred tax assets are recognised for unused tax losses and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax benefits can be utilised, management's judgements is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered. Details of the nature and carrying amounts of deferred tax assets are disclosed in note 24(b).

4 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>78,777</u>	<u>83,904</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 interest 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
	<i>\$'000</i>	<i>\$'000</i>
Revenue from external customers and reportable segment revenue	234,526	246,323
	<u>234,526</u>	<u>246,323</u>
(ii) Reconciliations of reportable segment profit, assets and liabilities		
	2015	2014
	<i>\$'000</i>	<i>\$'000</i>
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)
	<u>(4,192)</u>	<u>(1,418)</u>
Consolidated profit before taxation	22,251	26,579
	<u>22,251</u>	<u>26,579</u>
Assets		
Reportable segment assets	208,399	182,650
Interest in a joint venture	2,008	2,512
Deferred tax assets	489	915
Current tax recoverable	2,517	986
Unallocated corporate assets	192	324
	<u>192</u>	<u>324</u>
Consolidated total assets	213,605	187,387
	<u>213,605</u>	<u>187,387</u>
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
	<u>335</u>	<u>283</u>
Consolidated total liabilities	82,755	70,300
	<u>82,755</u>	<u>70,300</u>

(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, 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 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
United States	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

5 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.

6 PROFIT BEFORE TAXATION

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

	2015	2014
	<i>\$'000</i>	<i>\$'000</i>
(a) Finance costs:		
Interest on bank loans and other borrowings	1,360	1,339
Less: Interest expense capitalised into development costs*	<u>(576)</u>	<u>(727)</u>
	<u>784</u>	<u>612</u>
	784	612
	<i>\$'000</i>	<i>\$'000</i>
(b) Staff costs:		
Contributions to defined contribution retirement plans	3,913	3,194
Net expenses recognised in respect of defined benefit retirement plans (note 23)	<u>213</u>	<u>114</u>
Total retirement costs	4,126	3,308
Salaries, wages and other benefits	<u>64,903</u>	<u>64,857</u>
	69,029	68,165
Less: Amount capitalised into development costs	<u>(12,922)</u>	<u>(12,966)</u>
	<u>56,107</u>	<u>55,199</u>
	56,107	55,199
	<i>\$'000</i>	<i>\$'000</i>
(c) Other items		
Amortisation of intangible assets (note 13)	10,964	9,735
Depreciation (note 12)	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 (note 17(b))	<u>116,190</u>	<u>122,705</u>
	116,190	122,705
	<i>\$'000</i>	<i>\$'000</i>

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) 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
	-----	-----
	(27)	2,569
Current tax – Philippines Income Tax		
Provision for the year	1,168	628
Over-provision in respect of prior years	–	(86)
	-----	-----
	1,168	542
Current tax – Other jurisdictions		
Provision for the year	210	117
Over-provision in respect of prior years	–	(192)
	-----	-----
	210	(75)
Deferred tax		
Origination and reversal of temporary differences (note 24(b))	596	(181)
	-----	-----
	1,947	2,855
	=====	=====

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.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2015 \$'000	2014 \$'000
Profit before taxation	22,251	26,579
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	4,997	4,187
Tax effect of non-deductible expenses	770	391
Tax effect of non-taxable income	(1,867)	(55)
Tax effect of unused tax losses not recognised	109	111
Tax effect of temporary differences not recognised	–	522
Tax effect of tax exemption/deduction from tax authority	(1,742)	(743)
Tax effect of utilisation of tax losses previously not recognised	(386)	(1,283)
Over-provision in respect of prior years	(57)	(250)
Others	123	(25)
Actual tax expense	1,947	2,855

8 DIRECTOR'S EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2015				Total \$'000
	Directors' fees \$'000	Salaries, allowances and benefits in kind \$'000	Discretionary bonuses \$'000	Retirement scheme contributions \$'000	
<i>Executive directors</i>					
Mr. Wong Yiu Chu (resigned on 24 March 2015)	–	416	–	–	416
Ms. Tsui Kam Ling	–	1,080	–	18	1,098
Mr. Wong Chi Ho (appointed on 24 March 2015)	–	806	–	14	820
Mr. Wong Chi Kit (appointed on 24 March 2015)	–	806	–	14	820
Mr. Tan Keng Boon	–	1,009	–	18	1,027
<i>Non-executive director</i>					
Mr. Wong Yiu Chu (redesignated on 24 March 2015 and passed away on 30 March 2015)	–	–	–	–	–
<i>Independent non-executive directors</i>					
Ms. Kaung Cheung Xi Dawn (appointed on 24 March 2015)	92	–	–	–	92
Mr. Lo Kar Chun	120	–	–	–	120
Mr. Yim Kai Pung	120	–	–	–	120
Mr. Wong Yick Man, Francis (retired on 29 April 2015)	40	–	–	–	40
	372	4,117	–	64	4,553

	2014				Total \$'000
	Directors' fees \$'000	Salaries, allowances and benefits in kind \$'000	Discretionary bonuses \$'000	Retirement scheme contributions \$'000	
<i>Executive directors</i>					
Mr. Wong Yiu Chu	-	1,800	-	-	1,800
Mr. Tan Keng Boon	-	1,049	-	17	1,066
Ms. Tsui Kam Ling	-	1,080	-	17	1,097
<i>Independent non-executive directors</i>					
Dr. Yip Chak Kam, Peter (retired on 21 May 2014)	47	-	-	-	47
Mr. Yu Man Woon (resigned on 10 June 2014)	53	-	-	-	53
Mr. Wong Yick Man, Francis	120	-	-	-	120
Mr. Lo Kar Chun (appointed on 17 March 2014)	95	-	-	-	95
Mr. Yim Kai Pung (appointed on 10 June 2014)	67	-	-	-	67
	<u>382</u>	<u>3,929</u>	<u>-</u>	<u>34</u>	<u>4,345</u>

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2014: three) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other one individual (2014: two individuals) are as follows:

	2015 \$'000	2014 \$'000
Salaries and other emoluments	944	1,704
Retirement scheme contributions	18	34
Discretionary bonuses	-	-
	<u>962</u>	<u>1,738</u>

The emoluments of the one (2014: two) individual with the highest emoluments is within the following band:

	2015 <i>Number of individuals</i>	2014 <i>Number of individuals</i>
\$Nil to \$1,000,000	<u>1</u>	<u>2</u>

10 OTHER COMPREHENSIVE INCOME

Tax effects relating to each component of other comprehensive income:

	2015			2014		
	Before tax amount \$'000	Tax expense \$'000	Net-of-tax amount \$'000	Before tax amount \$'000	Tax benefit \$'000	Net-of-tax amount \$'000
Exchange differences on translation of financial statements of foreign operations	(828)	-	(828)	(559)	-	(559)
Remeasurement of employee retirement benefit obligations	(47)	15	(32)	(491)	147	(344)
	<u>(875)</u>	<u>15</u>	<u>(860)</u>	<u>(1,050)</u>	<u>147</u>	<u>(903)</u>

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

12 PLANT AND EQUIPMENT

	Leasehold improvements \$'000	Furniture and fixtures \$'000	Computer and office equipment \$'000	Mould \$'000	Motor vehicles \$'000	Total \$'000
Cost:						
At 1 January 2014	2,809	1,554	15,915	9,649	–	29,927
Exchange adjustments	(39)	(23)	(109)	–	(7)	(178)
Additions	67	67	2,512	1,396	967	5,009
Acquired through business combination	–	–	46	–	–	46
Disposals	–	(5)	(320)	(1,245)	–	(1,570)
At 31 December 2014	2,837	1,593	18,044	9,800	960	33,234
Accumulated depreciation:						
At 1 January 2014	2,535	1,256	11,398	7,500	–	22,689
Exchange adjustments	(37)	(19)	(83)	–	(1)	(140)
Charge for the year	333	136	2,439	1,342	119	4,369
Written back on disposals	–	(4)	(213)	(1,230)	–	(1,447)
At 31 December 2014	2,831	1,369	13,541	7,612	118	25,471
Net book value:						
At 31 December 2014	6	224	4,503	2,188	842	7,763
Cost:						
At 1 January 2015	2,837	1,593	18,044	9,800	960	33,234
Exchange adjustments	(98)	(42)	(235)	–	(19)	(394)
Additions	690	228	581	1,022	–	2,521
Disposals	(183)	(118)	(882)	–	–	(1,183)
At 31 December 2015	3,246	1,661	17,508	10,822	941	34,178
Accumulated depreciation:						
At 1 January 2015	2,831	1,369	13,541	7,612	118	25,471
Exchange adjustments	(81)	(31)	(176)	–	(5)	(293)
Charge for the year	187	139	2,165	1,179	215	3,885
Written back on disposals	(183)	(117)	(880)	–	–	(1,180)
At 31 December 2015	2,754	1,360	14,650	8,791	328	27,883
Net book value:						
At 31 December 2015	492	301	2,858	2,031	613	6,295

13 INTANGIBLE ASSETS

	Development costs \$'000	Customer relationships \$'000	Technical know-how \$'000	Total \$'000
Cost:				
At 1 January 2014	68,052	–	–	68,052
Capitalised during the year	15,899	–	–	15,899
Acquired through business combination	–	2,470	1,923	4,393
Exchange adjustments	–	33	27	60
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2014	83,951	2,503	1,950	88,404
	-----	-----	-----	-----
Accumulated amortisation:				
At 1 January 2014	35,792	–	–	35,792
Charge for the year	9,315	178	242	9,735
Exchange adjustments	–	–	2	2
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2014	45,107	178	244	45,529
	-----	-----	-----	-----
Net book value:				
At 31 December 2014	<u>38,844</u>	<u>2,325</u>	<u>1,706</u>	<u>42,875</u>
	-----	-----	-----	-----
Cost:				
At 1 January 2015	83,951	2,503	1,950	88,404
Capitalised during the year	15,526	–	–	15,526
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2015	99,477	2,503	1,950	103,930
	-----	-----	-----	-----
Accumulated amortisation:				
At 1 January 2015	45,107	178	244	45,529
Charge for the year	10,119	358	487	10,964
Impairment loss	189	–	–	189
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2015	55,415	536	731	56,682
	-----	-----	-----	-----
Net book value:				
At 31 December 2015	<u>44,062</u>	<u>1,967</u>	<u>1,219</u>	<u>47,248</u>
	-----	-----	-----	-----

The amortisation charges of \$10,119,000 (2014: \$9,315,000) and \$845,000 (2014: \$420,000) for the year are included in “research and development expenses” and “administrative expenses” respectively in the consolidated statement of profit or loss.

During 2015, the directors assessed the recoverable amounts of projects under development. Based on their review, the net book value of certain projects under development amounting to \$189,000 was fully written down as it is estimated that no future economic benefits will be generated from these projects due to change in market demand.

14 GOODWILL

	2015 \$'000	2014 \$'000
Cost:		
At 1 January	1,972	–
Additions through business combination	–	1,946
Exchange adjustments	–	26
	<u>1,972</u>	<u>1,972</u>
At 31 December	<u>1,972</u>	<u>1,972</u>

Impairment tests for cash-generating unit containing goodwill

In June 2014, the Group entered into two agreements with independent third parties to acquire certain assets and liabilities from Shenzhen Daming Wuzhou City Smart Card Technology Company Limited (“Daming Wuzhou”) (referred to as the “Acquisition”) for a total consideration of RMB5,300,000 (equivalent to approximately HK\$6,577,000). The acquisition was completed on 19 June 2014 and fulfilled the conditions of a business combination in accordance with HKFRS 3 *Business combinations*. The identifiable net assets and liabilities acquired mainly represent intangible assets, inventories, trade and other receivables, trade and other payables and deferred tax liabilities and the Acquisition gave rise to a goodwill of \$1,946,000 representing the benefit of future market development in the PRC, assembled workforce and expected synergies.

The goodwill is allocated to the Group’s only operating segment (as disclosed in note 4(b)) and cash-generating unit (“CGU”).

The recoverable amount of the Daming Wuzhou operations is determined based on value-in-use calculation. The calculation uses cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an annual rate of 3% for the business in which the CGU operates. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Key assumptions used for the value-in-use calculation:

	2015	2014
Growth rate	3–4%	3–4%
Pre-tax discount rate	<u>21.0%</u>	<u>18.8%</u>

The growth rate is determined by management based on past performance. The discount rate used is pre-tax and reflects specific risks relating to the segment.

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

15 INVESTMENTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

All of these are controlled subsidiaries (as defined under note 2(d)) and have been consolidated into the Group's financial statements.

Name of company	Place of incorporation/ establishment and business	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activities
			Group's effective interest %	Held by the Company %	Held by a subsidiary %	
Advanced Card Systems Limited	Hong Kong	18,000,000 shares	100	100	–	Development, sales and distribution of smart card products, software and hardware and the provision of smart card related services in Hong Kong
Advanced Card Systems Japan Limited	Japan	100 shares of JPY1,000 each	100	–	100	Sales and distribution of smart card products, software and hardware and the provision of smart card related services in Japan
ACS Technologies Limited	Hong Kong	1 share	100	100	–	Development, sales and distribution of smart card products, software and hardware and the provision of smart card related services in the Republic of the Philippines
ACS Shenzhen	PRC	Registered capital of HK\$14,000,000	100	–	100	Development, sales and distribution of smart card products, software and hardware and the provision of smart card related services in the PRC
Logyi	PRC	Registered capital of HK\$3,500,000	100	–	100	Development of smart card products, software and hardware and the provision of smart card related services in the PRC
TaptoPay Limited	Hong Kong	1 share	100	–	100	Development and provision of products and solutions for automatic revenue collection in Hong Kong

16 INTEREST IN A JOINT VENTURE

	2015	2014
	\$'000	\$'000
Share of net assets	1,051	2,512
Non-current receivables from a joint venture	957	–
	<u>2,008</u>	<u>2,512</u>

The non-current receivables from a joint venture are unsecured, interest-free and have no fixed terms of repayment.

Details of the Group's interest in a joint venture, which is accounted for using the equity method in the consolidated financial statements, are as follows:

Name of joint venture	Form of business structure	Place of incorporation and business	Particulars of issued and paid-up capital	Proportion of ownership interest			Principal activity
				Group's effective interest %	Held by the Company %	Held by a subsidiary %	
Goldpac ACS Technologies Inc. ("GATI")	Incorporated	Republic of the Philippines	350,000 shares of 100 Pesos each	45	–	45	Card personalisation (Note)

Note: GATI was established by the Group with two other secure payment product suppliers to expand its smart card business in the Republic of the Philippines.

GATI, the only joint venture in which the Group participates, is an unlisted corporate entity whose quoted market price is not available.

Summarised financial information of GATI, adjusted for any differences in accounting policies, and a reconciliation to the carrying amount in the consolidated financial statements, are disclosed below:

	2015	2014
	\$'000	\$'000
Gross amounts of GATI's:		
Current assets	1,439	5,268
Non-current assets	9,310	6,871
Current liabilities	(6,218)	(4,960)
Non-current liabilities	(2,195)	(1,596)
Equity	<u>2,336</u>	<u>5,583</u>
Included in the above assets and liabilities:		
Cash and cash equivalents	285	3,696
Other current assets	1,154	1,572
Current financial liabilities (excluding trade and other payables and provisions)	(6,096)	(4,928)
Non-current financial liabilities (excluding trade and other payables and provisions)	<u>(2,195)</u>	<u>(1,596)</u>

	2015	2014
	<i>\$'000</i>	<i>\$'000</i>
Revenue	–	–
Loss from operations and total comprehensive income	(3,019)	(455)
Included in the above loss:		
Interest income	4	1
Depreciation and amortisation	(924)	(23)
Other expenses	(2,099)	(433)
	<u> </u>	<u> </u>
Reconciled to the Group's interest in GATI:		
Gross amount of GATI's net assets	2,336	5,583
Group's effective interest	45%	45%
Group's share of GATI's net assets in the consolidated statement of financial position	1,051	2,512
	<u> </u>	<u> </u>

17 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2015	2014
	<i>\$'000</i>	<i>\$'000</i>
Raw materials	16,707	21,642
Work in progress	1,111	1,370
Finished goods	16,730	17,106
	<u> </u>	<u> </u>
	<u>34,548</u>	<u>40,118</u>

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2015	2014
	<i>\$'000</i>	<i>\$'000</i>
Carrying amounts of inventories sold	114,780	122,048
Write down of inventories	1,410	657
	<u> </u>	<u> </u>
	<u>116,190</u>	<u>122,705</u>

18 TRADE AND OTHER RECEIVABLES

	2015 \$'000	2014 \$'000
Trade receivables	73,030	47,089
Less: Allowance for doubtful debts (<i>note 18(b)</i>)	(630)	(685)
	<u>72,400</u>	<u>46,404</u>
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 (<i>note 18(b)</i>)	(61)	(64)
	<u>78,480</u>	<u>54,129</u>

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 \$'000	2014 \$'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
	<u>72,400</u>	<u>46,404</u>

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. Further details on the Group's credit policy are set out in note 26(a).

(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 (see note 2(k)(i)).

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

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

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.

(c) **Trade receivables that are not impaired**

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	2015 \$'000	2014 \$'000
Neither past due nor impaired	41,477	25,739
Less than 1 month past due	18,504	9,961
1 to 3 months past due	2,562	3,142
More than 3 months but less than 12 months past due	7,813	7,472
More than 1 year past due	2,044	90
	<u>30,923</u>	<u>20,665</u>
	<u>72,400</u>	<u>46,404</u>

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

19 HELD-TO-MATURITY FINANCIAL ASSETS

	2015 \$'000	2014 \$'000
Treasury bills, at amortised cost	<u>730</u>	<u>69</u>

Treasury bills are listed outside Hong Kong and have a fixed yield of 2.015% (2014: 1.050%) per annum and will mature on 6 January 2016 (2014: 7 January 2015). The market value of these held-to-maturity financial assets is \$730,000 (2014: \$69,000).

20 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	2015 \$'000	2014 \$'000
Cash at bank and on hand	38,493	35,203
Bank deposits maturing within three months when placed	448	468
Cash and cash equivalents in the consolidated statement of financial position	38,941	35,671
Unsecured bank overdrafts (<i>note 22</i>)	(9,136)	–
Cash and cash equivalents in the consolidated cash flow statement	<u>29,805</u>	<u>35,671</u>

As at 31 December 2015, cash at bank and deposits of \$6,907,000 (2014: \$6,972,000) were placed with banks in the PRC. Remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

(b) Reconciliation of profit before taxation to cash generated from operations:

	<i>Notes</i>	2015 \$'000	2014 \$'000
Profit before taxation		22,251	26,579
Adjustments for:			
Depreciation	<i>6(c)</i>	3,885	4,369
Amortisation of intangible assets	<i>6(c)</i>	10,964	9,735
(Reversal of)/provision of impairment losses on trade and other receivables	<i>6(c)</i>	(55)	446
Impairment losses on intangible assets	<i>13</i>	189	–
Finance costs	<i>6(a)</i>	784	612
Interest income	<i>5</i>	(67)	(213)
Net (gain)/loss on disposal of plant and equipment	<i>6(c)</i>	(37)	19
Share of results of a joint venture		1,358	205
Effect of foreign exchange loss		135	–
Changes in working capital:			
Decrease in inventories		5,326	5,809
Increase in trade and other receivables		(25,767)	(20,890)
Increase/(decrease) in trade and other payables		9,404	(1,511)
Increase/(decrease) in employee retirement benefit obligations		58	(8)
Cash generated from operations		<u>28,428</u>	<u>25,152</u>

21 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>

22 BANK LOANS AND OVERDRAFTS

At 31 December 2015, the bank loans and overdrafts of the Group were as follows:

	2015	2014
	<i>\$'000</i>	<i>\$'000</i>
Bank overdrafts (<i>note 20(a)</i>)		
– unsecured	9,136	–
Bank loans		
– secured	34,455	35,336
	<u>43,591</u>	<u>35,336</u>

As at 31 December 2015, the bank loans were secured by a corporate guarantee from the Company.

The bank loans and overdrafts were repayable as follows:

	2015	2014
	<i>\$'000</i>	<i>\$'000</i>
Within 1 year or on demand	38,314	26,356
Non-current portion of bank loans repayable on demand	5,277	8,980
	<u>43,591</u>	<u>35,336</u>

All of the non-current portion of term loans from banks are repayable on demand and carried at amortised cost and none of these non-current borrowings is expected to be settled within one year.

Certain banking facilities of the Group are subject to the fulfilment of covenants relating to certain of the Group's statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 26(b). As at 31 December 2015 and 2014, none of the covenants relating to drawn down facilities had been breached.

23 EMPLOYEE RETIREMENT BENEFITS

The Group operates and participates in a number of defined contribution and defined benefit retirement plans in and outside Hong Kong.

(a) Defined contribution retirement plans

- (i) The Group operates a Mandatory Provident Fund scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by an independent corporate trustee. Under the MPF scheme, the Group and the employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of \$30,000 (\$25,000 prior to June 2014). Contributions to the MPF scheme vest immediately.
- (ii) Pursuant to the relevant labour rules and regulations in the PRC, employees of the subsidiaries in the PRC are members of the central pension scheme operated by the PRC municipal government authorities. The Group is required to contribute a certain percentage of employees' remuneration to the central pension scheme to fund the benefits. The only obligation for the Group with respect to the central pension scheme is the associated required contribution under the central pension scheme. Contributions to the plan vest immediately.

(b) Defined benefit retirement plan

The Group makes contributions to a separate defined benefit plan for qualifying employees in the Republic of the Philippines. Contributions are based on the pension fund's actuarial measurement framework set out in the funding policies of the plan. Employees are not required to contribute to the plan and the Group expects to contribute \$159,000 (2014: \$173,000) to its defined benefit plan in the next financial year. The defined benefit plan is administered by a trustee that is legally separated from the Group. The trustee shall be responsible for the general administration of the plan and the management of the fund and is required by the law to act in the best interest of the plan participants and responsible for the investment policy with regard to the assets of the fund. The benefits are based on the qualifying employees' latest monthly salary and the number of years of services.

The plan is funded by contributions from the Group in accordance with an independent actuary's recommendation based on annual actuarial valuation. The latest actuarial valuation of the plan was at 31 December 2015 and was prepared by independent professionally qualified actuaries at E.M. Zalamea Actuarial Services, Inc. (who is a Member of the International Actuarial Association, Fellow of the Actuarial Society of the Philippines and Member of the International Association of Consulting Actuaries), using the projected unit credit method. The actuarial valuation indicates that the Group's obligation under this defined benefit retirement plan is 39% (2014: 36%) covered by the plan assets held by the trustee.

The plan exposes the Group to actuarial risks, such as interest rate risk, investment risk and longevity risk.

(i) The amounts recognised in the consolidated statement of financial position are as follows:

	2015	2014
	<i>\$'000</i>	<i>\$'000</i>
Present value of wholly funded obligations	1,343	1,140
Fair value of plan assets	(529)	(403)
	<u>814</u>	<u>737</u>

A portion of the above liability is expected to be settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions.

(ii) The major categories of the plan assets at the end of the reporting period are as follows:

	2015	2014
	<i>\$'000</i>	<i>\$'000</i>
Unit investment trust funds	<u>529</u>	<u>403</u>

The plan assets are valued by the fund manager of the pension fund at fair value using the mark-to-market valuation.

(iii) Movements in the present value of the defined benefit obligation:

	2015	2014
	<i>\$'000</i>	<i>\$'000</i>
At 1 January	1,140	568
Remeasurement:		
– Actuarial loss arising from changes in financial assumptions	15	477
Benefits paid by the plan	–	(19)
Current service cost	183	101
Interest cost	51	35
Exchange differences	(46)	(22)
	<u>1,343</u>	<u>1,140</u>
At 31 December	<u>1,343</u>	<u>1,140</u>

The weighted average duration of the defined benefit obligation is 13.8 years (2014: 18.3 years).

(iv) Movements in plan assets:

	2015	2014
	<i>\$'000</i>	<i>\$'000</i>
At 1 January	403	307
Contributions paid to the plan	154	121
Benefits paid by the plan	–	(19)
Return on plan assets, excluding interest income	(32)	(14)
Interest income	21	22
Exchange differences	(17)	(14)
	<u> </u>	<u> </u>
At 31 December	<u> 529</u>	<u> 403</u>

(v) Amount recognised in the consolidated statement of profit or loss and other comprehensive income are as follows:

	2015	2014
	<i>\$'000</i>	<i>\$'000</i>
Current service cost	183	101
Net interest on net defined benefit liability	30	13
	<u> </u>	<u> </u>
Total amounts recognised in profit or loss	----- 213	----- 114
Actuarial losses	15	477
Return on plan assets, excluding interest income	32	14
	<u> </u>	<u> </u>
Total amounts recognised in other comprehensive income	----- 47	----- 491
	<u> </u>	<u> </u>
Total defined benefit costs	<u> 260</u>	<u> 605</u>

The current service cost and the net interest on net defined benefit liability are recognised in the administrative expenses in the consolidated statement of profit or loss.

(vi) Significant actuarial assumptions and sensitivity analysis are as follows:

	2015	2014
Discount rate	4.89%	4.46%
Future salary increases	<u> 5% per annum</u>	<u> 5% per annum</u>

The below analysis shows how the defined benefit obligation as at 31 December 2015 would have increased/(decreased) as a result of 1% change in the significant actuarial assumptions:

	2015		2014	
	Increase	Decrease	Increase	Decrease
	in 1%	in 1%	in 1%	in 1%
	\$'000	\$'000	\$'000	\$'000
Discount rate	(170)	199	(155)	183
Future salary increases	183	(161)	169	(147)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

24 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents

	2015	2014
	\$'000	\$'000
Current tax recoverable	2,517	986
Current tax payable	(1,142)	(1,758)
	<u> </u>	<u> </u>
	1,375	(772)
	<u> </u>	<u> </u>

(b) Deferred tax assets/(liabilities) recognised

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Depreciation allowances in excess of the related depreciation					Total
	\$'000	Employee retirement benefits \$'000	Customer relationship \$'000	Technical know-how \$'000	Others \$'000	
Deferred tax arising from:						
At 1 January 2014	(511)	118	-	-	475	82
Exchange adjustments (Charged)/credited to profit or loss	-	(4)	(8)	(7)	(16)	(35)
Credited to reserves	(120)	(5)	45	61	200	181
Arising from business combination	-	147	-	-	-	147
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	(11)	-	(618)	(481)	-	(1,110)
At 31 December 2014	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	(642)	256	(581)	(427)	659	(735)

	Depreciation allowances in excess of the related depreciation \$'000	Employee retirement benefits \$'000	Application solutions \$'000	Customer relationship \$'000	Technical know-how \$'000	Tax losses \$'000	Others \$'000	Total \$'000
Deferred tax arising from:								
At 1 January 2015	(642)	256	-	(581)	(427)	-	659	(735)
Exchange adjustments	-	-	-	-	-	-	(19)	(19)
Credited/(charged) to profit or loss	139	15	(923)	89	122	399	(437)	(596)
Credited to reserves	-	15	-	-	-	-	-	15
At 31 December 2015	<u>(503)</u>	<u>286</u>	<u>(923)</u>	<u>(492)</u>	<u>(305)</u>	<u>399</u>	<u>203</u>	<u>(1,335)</u>

Reconciliation to the statement of financial position

	2015 \$'000	2014 \$'000
Net deferred tax assets recognised in the consolidated statement of financial position	489	915
Net deferred tax liabilities recognised in the consolidated statement of financial position	<u>(1,824)</u>	<u>(1,650)</u>
	<u>(1,335)</u>	<u>(735)</u>

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(r), the Group has not recognised deferred tax assets in respect of tax losses and other temporary differences of \$6,923,000 (2014: \$8,828,000) as it is not probable that future taxable profits against which the losses and other temporary differences can be utilised will be available in the relevant tax jurisdictions and entities.

Included in unrecognised tax losses and other temporary differences is an amount of \$878,000 (2014: \$444,000) which can be carried forward up to five years from the year in which the loss originated. The remaining balance of \$6,045,000 (2014: \$8,384,000) does not expire under current tax legislation.

(d) Deferred tax liabilities not recognised

At 31 December 2015, temporary differences relating to undistributed profits of subsidiaries amounted to \$12,575,000 (2014: \$4,507,000). Deferred tax liabilities of \$875,000 (2014: \$225,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

25 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	<i>Note</i>	Share capital \$'000	Share premium \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 January 2014		28,406	17,955	10,587	56,948
Changes in equity for the year:					
Final dividend approved in respect of the previous year	25(b)(ii)	–	–	(5,681)	(5,681)
Total comprehensive income for the year		–	–	9,382	9,382
Balance at 31 December 2014		28,406	17,955	14,288	60,649
	<i>Note</i>	Share capital \$'000	Share premium \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 January 2015		28,406	17,955	14,288	60,649
Changes in equity for the year:					
Final dividend approved in respect of the previous year	25(b)(ii)	–	–	(5,681)	(5,681)
Total comprehensive income for the year		–	–	6,038	6,038
Balance at 31 December 2015		28,406	17,955	14,645	61,006

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

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

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
	\$'000	\$'000
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)	<u>5,681</u>	<u>5,681</u>

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.

(c) Share capital

Authorised and issued share capital

	2015		2014	
	Number of shares	Amount	Number of shares	Amount
	'000	\$'000	'000	\$'000
Authorised:				
Ordinary shares of \$0.1 each	<u>1,000,000</u>	<u>100,000</u>	<u>1,000,000</u>	<u>100,000</u>
Ordinary shares, issued and fully paid:				
At 1 January and 31 December	<u>284,058</u>	<u>28,406</u>	<u>284,058</u>	<u>28,406</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(d) Nature and purpose of reserves**(i) Share premium**

Under the Companies Law (2009 Revision) of the Cayman Islands, the share premium of the Company is available for distributions or paying dividends to shareholders subject to the provisions of its memorandum and articles of association and provided that immediately following the payment of distribution or dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's articles of association, distribution shall be payable out of profits or other reserves, including the share premium account of the Company.

Included in the reserves of the Company available for the distribution is share premium arising from the issuance of Series A preference shares which were redeemed on 7 November 2003.

(ii) Merger reserve

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

(iii) Surplus reserve

Pursuant to the applicable PRC regulations, PRC entity is required to appropriate 10% of its profit-after-tax (after offsetting prior year losses) to the reserve until such reserve reaches 50% of the registered capital. The transfer to the reserve must be made before distribution of dividends to shareholders. The surplus reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase registered capital of the PRC subsidiaries, provided that the balance after such issue is not less than 50% of its registered capital.

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations outside Hong Kong and the foreign exchange differences arising from translation of monetary items that in substance form part of the net investment in foreign operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policy set out in note 2(u).

(e) Distributability of reserves

At 31 December 2015, the aggregate amount of reserve available for distribution to equity shareholders of the Company, (including the distributable amounts disclosed in note 25(d)(i)), was \$32,600,000 (2014: \$32,243,000).

After the end of the reporting period, the directors proposed a final dividend of 1.0 cent per ordinary share (2014: 2.0 cents per ordinary share), amounting to \$2,841,000 (2014: \$5,681,000) (note 25(b)(ii)). This dividend has not been recognised as liabilities at the end of reporting period.

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a debt-to-capital ratio. For this purpose, the Group defines debt as the total of interest-bearing borrowings, and capital as all components of equity less unaccrued proposed dividends.

During 2015, the Group's strategy, which was unchanged from 2014, was to maintain sufficient capital to cover any net debt position by adjusting the amount of dividends paid to shareholders, issue new shares as well as issue of new debts or the redemption of existing debt. The debt-to-capital ratios at 31 December 2015 and 2014 are 33% and 30% respectively.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposures to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposure to these credit risks are monitored on an on-going basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables in relation to sales of smart card products and hardware are generally due within seven days to three months from the date of billing. For sales of software and sales under solution business, specific payment term such as payment by instalment or credit term of more than three months may be granted, which depends on the trading history of customers and nature of the project. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. At the end of reporting period, 23% (2014: 22%) and 58% (2014: 59%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

The Group does not provide any guarantees which would expose the Group to credit risk.

The Group's cash at bank and bank deposits are placed with financial institutions with sound credit ratings, and the management consider the Group's exposure to credit risk on cash at bank and bank deposits is low.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 18.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management for daily operation, including placing short term bank deposits and raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. Cash surplus over operating needs are closely monitored and managed by the Group's central cash and treasury management system. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term. The Group's exposures to the liquidity risk and its policies for managing such risk were unchanged from the year ended 31 December 2014.

The following table shows the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	2015 Contractual undiscounted cash outflow				Carrying amount \$'000
	Within 1 year or on demand \$'000	More than 1 year but less than 2 years \$'000	More than 2 years but less than 5 years \$'000	Total \$'000	
Trade and other payables (excluding receipt in advance)	33,646	–	–	33,646	33,646
Bank loans and overdrafts subject to repayment on demand clauses: scheduled repayments	29,899	3,453	1,965	35,317	34,455
	<u>63,545</u>	<u>3,453</u>	<u>1,965</u>	<u>68,963</u>	<u>68,101</u>

	2014 Contractual undiscounted cash outflow				Carrying amount \$'000
	Within 1 year or on demand \$'000	More than 1 year but less than 2 years \$'000	More than 2 years but less than 5 years \$'000	Total \$'000	
Trade and other payables (excluding receipt in advance)	26,332	–	–	26,332	26,332
Bank loans and overdrafts subject to repayment on demand clauses: scheduled repayments	27,351	9,139	–	36,490	35,336
	<u>53,683</u>	<u>9,139</u>	<u>–</u>	<u>62,822</u>	<u>61,668</u>

(c) **Interest rate risk**

The Group's interest rate risk arises primarily from bank loans and overdrafts. The Group's policy is to manage its interest rate risk to ensure there are no undue exposures to significant interest rate movements. The Group does not use derivative financial instruments to hedge its fixed and floating rate debt obligations. All of the interest-bearing borrowings of the Group as of 31 December 2015 and 2014 are variable rate instruments. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's interest-bearing borrowings at the end of the reporting period:

	2015	2014		
	Effective		Effective	
	interest		interest	
	rate	Amount	rate	Amount
	%	\$'000	%	\$'000
Variable rate borrowings:				
	2.88%–		2.71%–	
Bank loans and overdrafts	4.00%	34,455	4.00%	35,336

(ii) Sensitivity analysis

At 31 December 2015, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately \$144,000 (2014: \$148,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the end of the reporting period, the impact on the Group's profit after tax (and retained profits) is estimated as an annualised impact on interest expense of such a change in interest rates.

The analysis has been performed on the same basis for the year ended 31 December 2014.

(d) Currency risk

The Group is exposed to currency risk primarily through sales, purchases and borrowings which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States dollars ("USD"), Euros ("EUR") and Renminbi ("RMB").

These are not functional currencies of the group entities to which these transactions related.

(i) Exposure to currency risk

The following table details the Group's significant exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in HKD, translated using the spot rates at the year end date. Differences resulting from the translation of the financial statements of foreign operations outside Hong Kong into the Group's presentation currency are excluded.

	Exposure to foreign currencies (expressed in HKD)					
	2015			2014		
	USD	EUR	RMB	USD	EUR	RMB
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and cash equivalents	17,505	2,148	600	10,586	333	2,134
Trade and other receivables	78,042	4,693	23,322	39,116	8,992	4,668
Trade and other payables	(38,504)	(396)	(9,201)	(24,861)	(213)	(4,890)
	<u>57,043</u>	<u>6,445</u>	<u>14,721</u>	<u>24,841</u>	<u>9,112</u>	<u>1,912</u>

(ii) *Sensitivity analysis*

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group entities have significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the HKD and the USD would be materially unaffected by any changes in movement in value of the USD against other currencies.

	2015		2014	
	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after taxation and retained profits \$'000	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after taxation and retained profits \$'000
EUR	5%	269	5%	380
	(5)%	(269)	(5)%	(380)
RMB	5%	615	5%	80
	(5)%	(615)	(5)%	(80)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into HKD at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations outside Hong Kong into the Group's presentation currency. The analysis has been performed on the same basis for the year ended 31 December 2014.

(e) Fair value measurement

HKFRS 13, *Fair value measurement* categories fair value measurements into a three-level hierarchy. The level into which fair value is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

At 31 December 2015, the fair value of the held-to-maturity treasury bills listed outside Hong Kong held by the Group was \$730,000 (2014: \$69,000) (see note 19). The costs of the held-to-maturity financial assets are not materially different from their fair values at 31 December 2015 and 2014. These instruments fall into level 1 of the fair value hierarchy described above.

During the years ended 31 December 2015 and 2014, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of reporting period in which they occur.

All other financial assets and liabilities of the Group carried at costs or amortised costs are not materially different from their fair values as at 31 December 2015 and 2014.

27 COMMITMENTS

- (a) 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	843	881

In June 2014, the Group entered into an agreement with an independent third party to acquire 10% equity interests of Zigong Yandou Smart Card Information Technology Company Limited for a consideration of RMB1,000,000. 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.

- (b) At 31 December 2015, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2015	2014
	<i>\$'000</i>	<i>\$'000</i>
Within 1 year	3,028	3,663
After 1 year but within 5 years	197	2,091
	3,225	5,754

The Group leases a number of properties under operating leases. The leases run for an initial period of one to three years, with an option to renew each lease upon expiry when all terms are renegotiated.

28 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions.

Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's Directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	2015	2014
	<i>\$'000</i>	<i>\$'000</i>
Short-term employee benefits	7,372	7,884
Post-employment benefits	126	117
	<u>7,498</u>	<u>8,001</u>

Total remuneration is included in "staff costs" (see note 6(b)).

29 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	2015	2014
	<i>\$'000</i>	<i>\$'000</i>
Non-current assets		
Interests in subsidiaries	14,004	14,004
Amounts due from a subsidiary	46,862	–
	<u>60,866</u>	<u>14,004</u>
Current assets		
Other receivables	192	324
Amounts due from a subsidiary	–	46,456
Cash and cash equivalents	283	148
	<u>475</u>	<u>46,928</u>
Current liabilities		
Other payables	335	283
	<u>335</u>	<u>283</u>
Net current assets	<u>140</u>	<u>46,645</u>
Total assets less current liabilities	<u>61,006</u>	<u>60,649</u>
NET ASSETS	<u>61,006</u>	<u>60,649</u>
CAPITAL AND RESERVES		
Share capital	28,406	28,406
Reserves	32,600	32,243
	<u>61,006</u>	<u>60,649</u>
TOTAL EQUITY	<u>61,006</u>	<u>60,649</u>

30 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the Directors proposed a final dividend. Further details are disclosed in note 25(b).

31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2015

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2015 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
<i>Annual Improvements to HKFRSs 2012–2014 Cycle</i>	1 January 2016
Amendments to HKAS 1, <i>Disclosure initiative</i>	1 January 2016
Amendments to HKAS 16 and HKAS 38, <i>Clarification of acceptable methods of depreciation and amortisation</i>	1 January 2016
HKFRS 9, <i>Financial instruments</i>	1 January 2018
HKFRS 15, <i>Revenue from contracts with customers</i>	1 January 2018

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. The Group is therefore unable to disclose the impact that adopting the amendments and new standards will have on its financial position and the results of operations when such amendments and new standards are adopted.

3. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

The following is the full text of the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2016 extracted from the interim report of the Company for the six months ended 30 June 2016:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	Note	Unaudited Six months ended 30 June	
		2016 HK\$'000	2015 HK\$'000
Revenue	3	57,731	106,920
Cost of sales		<u>(28,801)</u>	<u>(53,215)</u>
Gross profit		28,930	53,705
Other income		153	10,367
Selling and distribution costs		(8,060)	(10,707)
Research and development expenses		(21,377)	(20,898)
Administrative expenses		<u>(20,995)</u>	<u>(21,009)</u>
(Loss)/profit from operations		(21,349)	11,458
Finance costs	4	(529)	(347)
Share of results of a joint venture		<u>(734)</u>	<u>(636)</u>
(Loss)/profit before taxation	4	(22,612)	10,475
Income tax	5	<u>2,749</u>	<u>(1,121)</u>
(Loss)/profit for the period, attributable to the equity shareholders of the Company		<u>(19,863)</u>	<u>9,354</u>

	<i>Note</i>	Unaudited Six months	
		ended 30 June	
		2016	2015
		<i>HK\$'000</i>	<i>HK\$'000</i>
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss			
– Exchange differences on translation of financial statements of foreign operations		<u>(371)</u>	<u>(227)</u>
Other comprehensive income for the period, net of tax		<u>(371)</u>	<u>(227)</u>
Total comprehensive income for the period, attributable to equity shareholders of the Company		<u>(20,234)</u>	<u>9,127</u>
(Losses)/earnings per share	<i>6</i>		
– Basic (HK cents)		(6.993)	3.293
– Diluted (HK cents)		<u>(6.993)</u>	<u>3.293</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	<i>Note</i>	Unaudited 30 June 2016 HK\$'000	Audited 31 December 2015 HK\$'000
Non-current assets			
Plant and equipment	7	5,283	6,295
Intangible assets		47,865	47,248
Goodwill		1,972	1,972
Interest in a joint venture		1,255	2,008
Prepayment for available-for-sale securities	11(a)	377	377
Deferred tax assets		3,154	489
		<u>59,906</u>	<u>58,389</u>
Current assets			
Inventories		43,036	34,548
Trade and other receivables	8	43,886	78,480
Held-to-maturity financial assets		912	730
Current tax recoverable		2,728	2,517
Cash and cash equivalents		29,225	38,941
		<u>119,787</u>	<u>155,216</u>
Current liabilities			
Trade and other payables	9	26,698	35,384
Bank loans and overdraft		42,255	43,591
Current tax payable		1,042	1,142
		<u>69,995</u>	<u>80,117</u>
Net current assets		<u>49,792</u>	<u>75,099</u>
Total assets less current liabilities		<u>109,698</u>	<u>133,488</u>
Non-current liabilities			
Defined benefit obligations		912	814
Deferred tax liabilities		1,011	1,824
		<u>1,923</u>	<u>2,638</u>
NET ASSETS		<u>107,775</u>	<u>130,850</u>
CAPITAL AND RESERVES			
Share capital	10(b)	28,406	28,406
Reserves		79,369	102,444
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		<u>107,775</u>	<u>130,850</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS*For the six months ended 30 June 2016*

	Unaudited	
	Six months ended 30 June	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash generated from operating activities	2,285	13,449
Net cash used in investing activities	(7,092)	(12,506)
Net cash generated from/(used in) financing activities	<u>4,223</u>	<u>(606)</u>
Net (decrease)/increase in cash and cash equivalents	(584)	337
Cash and cash equivalents at 1 January	29,805	35,671
Effect of foreign exchange rates changes	<u>4</u>	<u>9</u>
Cash and cash equivalents at 30 June	<u><u>29,225</u></u>	<u><u>36,017</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Share capital HK\$'000	Share premium* HK\$'000	Merger reserve* HK\$'000	Unaudited Surplus reserve* HK\$'000	Exchange reserve* HK\$'000	Retained profits* HK\$'000	Total HK\$'000
Balance at 1 January 2015	28,406	17,955	4,496	-	1,147	65,083	117,087
Charges in equity for the period							
Profit for the period	-	-	-	-	-	9,354	9,354
Other comprehensive income							
- Exchange differences on translation of financial statements of foreign operations	-	-	-	-	(227)	-	(227)
Total comprehensive income	-	-	-	-	(227)	9,354	9,127
Final dividend approved in respect of the previous year	-	-	-	-	-	(5,681)	(5,681)
Balance at 30 June 2015	28,406	17,955	4,496	-	920	68,756	120,533
Balance at 1 January 2016	28,406	17,955	4,496	1,082	319	78,592	130,850
Charges in equity for the period							
Loss for the period	-	-	-	-	-	(19,863)	(19,863)
Other comprehensive income							
- Exchange differences on translation of financial statements of foreign operations	-	-	-	-	(371)	-	(371)
Total comprehensive income	-	-	-	-	(371)	(19,863)	(20,234)
Final dividend approved in respect of the previous year	-	-	-	-	-	(2,841)	(2,841)
Balance at 30 June 2016	28,406	17,955	4,496	1,082	(52)	55,888	107,775

* These reserve accounts comprise the consolidated reserves of HK\$79,369,000 (30 June 2015: HK\$92,127,000) in the consolidated statement of financial position as at 30 June 2016.

NOTES TO THE INTERIM FINANCIAL REPORT

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This interim financial report is unaudited but has been reviewed by the audit committee of the Company and it was authorised for issue on 12 August 2016.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, 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.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2015 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The financial information relating to the financial year ended 31 December 2015 that is included in the interim financial report as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements.

2 CHANGES IN ACCOUNTING POLICIES

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

Annual Improvements to HKFRSs 2012–2014 Cycle

Amendments to HKAS1, *Disclosure initiative*

Amendments to HKAS 16 and HKAS 38, *Clarification of acceptable methods of depreciation and amortisation*

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

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:

	Six months ended 30 June	
	2016	2015
	<i>HK\$’000</i>	<i>HK\$’000</i>
Sale of smart card products, software and hardware	55,928	102,197
Smart card related services	1,803	4,723
	57,731	106,920
	57,731	106,920

(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.

	Six months ended 30 June	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from external customers and reportable segment revenue	57,731	106,920
(Loss)/profit		
Reportable segment (loss)/profit	(21,334)	3,110
Share of results of a joint venture	(734)	(636)
Unallocated corporate income	–	10,140
Unallocated corporate expenses	(544)	(2,139)
Consolidated (loss)/profit before taxation	(22,612)	10,475
	30 June	31 December
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Assets		
Reportable segment assets	172,477	208,399
Interest in a joint venture	1,255	2,008
Deferred tax assets	4,685	489
Current tax recoverable	2,728	2,517
Unallocated corporate assets	79	192
Consolidated total assets	181,224	213,605

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 noncurrent 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	
	Six months ended 30 June		30 June	31 December
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
People's Republic of China ("PRC"), including Hong Kong and Macau (county of domicile)	9,069	17,229	54,646	54,882
United States	4,728	8,589	10	17
Italy	8,318	22,397	–	–
Republic of the Philippines	6,657	11,803	2,009	2,772
Other countries	28,959	46,902	87	229
	48,662	89,691	2,106	3,018
	57,731	106,920	56,752	57,900

4 (LOSS)/PROFIT BEFORE INCOME TAX

(a) Finance Costs

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Interest on bank loans and other borrowings	736	612
Less: interest expense capitalised into development costs*	(207)	(265)
	529	347

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

(b) Other items

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
(Loss)/profit before taxation is arrived at after charging/(crediting):		
Amortisation of intangible assets		
– Included in research and development expenses	5,557	4,856
– Included in administrative expenses	423	425
Amount recognised in profit or loss	5,980	5,281
Depreciation of plant and equipment	698	1,994
Bad debt written off	3,113	–
Termination and redundancy payments to staff	3,108	–
Write down of inventories	510	238
Receipt of insurance claim <i>(note)</i>	–	(10,140)
	–	(10,140)

Note: On 22 May 2015, the Company received USD1,313,234 from its insurer, out of which USD1,300,000 (equivalent to HK\$10,140,000) is the payment of insurance claim under the life insurance policy for the late Mr. Wong Yiu Chu.

5 INCOME TAX

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Current tax		
Hong Kong profits tax		
– Provision for current year	–	959
– (Over)/under-provision in respect of prior years	(436)	53
	(436)	1,012
Philippines Income Tax		
– Provision for current year	1,002	56
Other jurisdictions	165	293
	731	1,361
Deferred taxation	(3,480)	(240)
	(2,749)	1,121

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

The provision for Philippines Income Tax for the period is calculated at 30% (2015: 30%) of the estimated taxable income or 2% (2015: 2%) on gross income incurred, whichever is higher, in accordance with the National Internal Revenue Code of the Republic of the Philippines.

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.

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

6 (LOSSES)/EARNINGS PER SHARE

(a) Basic (losses)/earnings per share

The calculation of basic losses per share (2015: basic earnings per share) for the six months ended 30 June 2016 is based on loss attributable to ordinary equity shareholders of the Company of HK\$19,863,000 (2015: profit of HK\$9,354,000) and the weighted average of 284,058,000 (2015: 284,058,000) ordinary shares in issue during the period.

(b) Diluted (losses)/earnings per share

Diluted (losses)/earnings per share for the six months ended 30 June 2016 and 2015 are the same as the basic (losses)/earnings per share as there are no dilutive potential ordinary shares.

7 PLANT AND EQUIPMENT

During the six months ended 30 June 2016, the Group acquired items of plant and equipment with a cost of HK\$655,000 (2015: HK\$1,479,000), which primarily consists of Computer and office equipment, leasehold improvements and Moulds amounting to HK\$217,000, HK\$38,000 and HK\$290,000 (2015: HK\$518,000, HK\$483,000 and HK\$341,000) respectively. Items of plant and machinery with a net book value of HK\$942,000 were disposed of during the six months ended 30 June 2016 (2015: HK\$6,000), resulting in a loss on disposal of HK\$837,000 (2015: gain on disposal of HK\$36,000).

8 TRADE AND OTHER RECEIVABLES

	30 June 2016	31 December 2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	37,468	73,030
Less: Allowance for doubtful debts	<u>(630)</u>	<u>(630)</u>
	36,838	72,400
Deposits and prepayments	3,768	3,230
Amount due from a joint venture	2,682	1,025
Other receivables	659	1,886
Less: Allowance for doubtful debts	<u>(61)</u>	<u>(61)</u>
	<u>43,886</u>	<u>78,480</u>

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:

	30 June 2016	31 December 2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month	7,350	36,407
1 to 2 months	4,193	13,447
2 to 3 months	571	1,667
3 to 12 months	18,645	18,094
Over 1 year	6,079	2,785
	<u>36,838</u>	<u>72,400</u>

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.

9 TRADE AND OTHER PAYABLES

	30 June 2016	31 December 2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	12,407	24,171
Accruals and deposits received	14,291	11,213
	<u>26,698</u>	<u>35,384</u>

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

	30 June 2016	31 December 2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month	7,707	11,003
1 to 3 months	3,426	12,422
3 to 12 months	974	436
Over 1 year	300	310
	<u>12,407</u>	<u>24,171</u>

10 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividend

- (i) Dividends payable to equity shareholders attributable to the interim period. The Company has not declared any dividend for the six month ended 30 June 2016 (2015: nil).
- (ii) Dividends payable to equity shareholders attributable to the previous financial year, approved and paid during the interim period:

	Six months ended 30 June	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of 1.0 HK cent per share (2015: 2.0 HK cents per share)	2,841	5,681

(b) Share Capital

Authorised and issued share capital

	30 June 2016		31 December 2015	
	Number of shares '000	Amount <i>HK\$'000</i>	Number of shares '000	Amount <i>HK\$'000</i>
Authorised:				
Ordinary shares of HK\$0.1 each	1,000,000	100,000	1,000,000	100,000
Ordinary shares, issued and fully paid:				
At 1 January and 30 June/31 December	284,058	28,406	284,058	28,406

11 COMMITMENTS

- (a) Capital commitments outstanding at 30 June 2016 not provided for in the financial statements were as follows:

	30 June 2016	31 December 2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted for	811	843

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 30 June 2016, a deposit of HK\$377,000 (31 December 2015: HK\$377,000) was paid by the Group which was included in "Prepayment for available-for-sale securities" within non-current assets.

- (b) At 30 June 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	30 June 2016	31 December 2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year	1,348	3,028
After 1 year but within 5 years	—	197
	<u>1,348</u>	<u>3,225</u>

The Group leases a number of properties under operating leases. The leases run for an initial period of one to three years, with an option to renew each lease upon expiry when all terms are renegotiated.

12 RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions.

Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's Directors, is as follows:

	Six months ended 30 June	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Short-term employee benefits	3,283	3,856
Post-employment benefits	62	63
	<u>3,345</u>	<u>3,919</u>

4. INDEBTEDNESS STATEMENT

Borrowings

At the close of business on 31 December 2016, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this Composite Document, the Group had bank loans of approximately HK\$14.2 million which were secured by a corporate guarantee from the Company.

Contingent liabilities

As at 31 December 2016, the Company had outstanding corporate guarantee of HK\$80.3 million (plus accrued interest thereon) to banks in respect of banking facilities granted to its two main subsidiaries. As at 31 December 2016, the Group had available banking facilities of approximately HK\$66.2 million, of which approximately HK\$52 million had not been utilised. Save as disclosed herein, the Group did not have any significant contingent liabilities.

Save as aforesaid or as otherwise disclosed herein, apart from intra-group liabilities and normal trade and other payables, the Group did not have any debt securities issued and outstanding or agreed to be issued, any outstanding bank overdrafts or loans, or other similar indebtedness, loan capital, debentures, liabilities under acceptances, acceptance credits, hire purchase or finance lease commitments, mortgages, charges, or guarantees or other material contingent liabilities as at the close of business on 31 December 2016.

5. MATERIAL CHANGE

The Directors confirm that save as and except for the below, there was no material change in the financial or trading position or outlook of the Group since 31 December 2015, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date:

- (i) the Group's revenue for the year ended 31 December 2016 ("FY2016") decreased as compared to the year ended 31 December 2015 ("FY2015"). As a result, the Group's corresponding cost of sales and gross profit for FY2016 also decreased as compared to FY2015. Thus, the Group's (a) trade and other receivables; and (b) trade and other payables also decreased as at 31 December 2016 as compared to those as at 31 December 2015;
- (ii) there was a payment of benefit in FY2015 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. In the absence of the aforesaid payment of benefit in FY2016, the other income of the Group for FY2016 decreased as compared to FY2015;
- (iii) the selling and distribution costs of the Group for FY2016 decreased as compared to FY2015, which was mainly due to reduction in revenue;
- (iv) the research and development expenses of the Group for FY2016 decreased as compared to FY2015, which was mainly due to the Group's internal restructuring which consolidated certain research and development functions to Shenzhen from other current locations as announced by the Company on 11 May 2016;

- (v) the Group recorded loss attributable to the equity shareholders of the Company for FY2016 as compared to profit attributable to the equity shareholders of the Company for FY2015, which was mainly due to the changes as stated under points (i) to (iv) above;
- (vi) the Group repaid a substantial amount of bank loans during FY2016. As such, the Group's bank loans and overdrafts as at 31 December 2016 decreased as compared to those as at 31 December 2015; and
- (vii) the Company conducted a rights issue during FY2016, details of which are set out in the announcement of the Company dated 23 September 2016. The Company's share capital and reserves as at 31 December 2016 increased as compared to 31 December 2015 as a result of the aforesaid rights issue.

Note: The decrease in revenue, cost of sales, gross profit, other income, selling and distribution costs of the Group for the six months ended 30 June 2016 as compared to the corresponding period in 2015 was disclosed under the interim report of the Company for the six months ended 30 June 2016.

The following is the text of a letter received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for inclusion in this Composite Document.



8th Floor
Prince's Building
10 Charter Road
Central
Hong Kong

1 March 2017

The Directors
Advanced Card Systems Holdings Limited
Units 2010–2013, 20th Floor
Chevalier Commercial Centre
8 Wang Hoi Road, Kowloon Bay
Hong Kong

Dear Sirs,

PROFIT ESTIMATE FOR YEAR ENDED 31 DECEMBER 2016

We refer to the estimate of the loss attributable to the equity shareholders of the Company for the year ended 31 December 2016 which has been prepared to enable the Company's directors to issue the following statements ("**the Profit Estimate**") set forth in the composite document of the Company dated 1 March 2017 (the "**Composite Document**"):

- (a) the Group's revenue for the year ended 31 December 2016 ("**FY2016**") decreased as compared to the year ended 31 December 2015 ("**FY2015**"). As a result, the Group's corresponding cost of sales and gross profit for FY2016 also decreased as compared to FY2015;
- (b) there was a payment of benefit in FY2015 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. In the absence of the aforesaid payment of benefit in FY2016, the other income of the Group for FY2016 decreased as compared to FY2015; and
- (c) the Group recorded loss attributable to the equity shareholders of the Company for FY2016 as compared to profit attributable to the equity shareholders of the Company for FY2015, which was mainly due to the changes as stated under points (i) to (iv) under the section headed "5. MATERIAL CHANGE" in Appendix II to the Composite Document.

DIRECTORS' RESPONSIBILITIES

The Profit Estimate has been prepared by the directors of the Company based on the unaudited consolidated management accounts of the Company and its subsidiaries (collectively referred to as "**the Group**") for the year ended 31 December 2016.

The Company's directors are solely responsible for the Profit Estimate.

OUR INDEPENDENCE AND QUALITY CONTROL

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms That Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

REPORTING ACCOUNTANTS’ RESPONSIBILITIES

Our responsibility is to express an opinion on the accounting policies and calculations of the Profit Estimate based on our procedures. We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 “Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness” and with reference to Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the HKICPA. Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the Company’s directors have properly compiled the Profit Estimate in accordance with the bases adopted by the directors and as to whether the Profit Estimate is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

OPINION

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Estimate has been properly compiled in accordance with the bases adopted by the Company’s directors and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in the Company’s published annual report filed with The Stock Exchange of Hong Kong Limited for the year ended 31 December 2015.

Yours faithfully,

KPMG
Certified Public Accountants
Hong Kong

The following is the text of a letter received from Gram Capital, for inclusion in this Composite Document.



Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

1 March 2017

The Board of Directors

Advanced Card Systems Holdings Limited
Units 2010–2013, 20th Floor
Chevalier Commercial Centre
8 Wang Hoi Road
Kowloon Bay, Hong Kong

Dear Sirs,

Reference is made to the Composite Document dated 1 March 2017 jointly issued by the Offeror and the Company. Capitalised terms used in this letter shall have the same respective meanings as defined in the Composite Document unless the context otherwise required.

We refer to the below statements made by the Company under the Composite Document (the “**Profit Estimates**”):

- (a) the Group’s revenue for the year ended 31 December 2016 (“**FY2016**”) decreased as compared to the year ended 31 December 2015 (“**FY2015**”). As a result, the Group’s corresponding cost of sales and gross profit for FY2016 also decreased as compared to FY2015;
- (b) there was a payment of benefit in FY2015 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. In the absence of the aforesaid payment of benefit in FY2016, the other income of the Group for FY2016 decreased as compared to FY2015; and
- (c) the Group recorded loss attributable to the equity shareholders of the Company for FY2016 as compared to profit attributable to the equity shareholders of the Company for FY2015, which was mainly due to the changes as stated under points (i) to (iv) under the section headed “5. MATERIAL CHANGE” in Appendix II to the Composite Document.

The Profit Estimates constitute profit forecast under Rule 10 of the Takeovers Code and must be reported on by the financial adviser and the auditors or consultant accountants. This report is issued in compliance with the requirements under Rule 10.4 and Note 1(c) to Rules 10.1 and 10.2 of the Takeovers Code.

We have reviewed the Profit Estimates and other relevant information and documents (in particular, the unaudited consolidated management account of the Group for the FY2016 with comparative figures for FY2015 (the “**Mgt Account & Comparative Figures**”)) which you as the Directors are solely responsible for and discussed with you and the senior management of the Company the information and documents (in particular, the Mgt Account & Comparative Figures) provided by you which formed the key bases (i.e. the Mgt Account & Comparative Figures) upon which the Profit Estimates have been made. In respect of the accounting policies and calculations concerned, upon which the Profit Estimates have been made, we have relied upon the report as contained in Appendix III to the Composite Document addressed to the Board from KPMG, being the auditor of the Company. KPMG is of the opinion that so far as the accounting policies and calculations are concerned, the Profit Estimates have been properly compiled with in accordance with the bases made by the Directors and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in the annual report of the Company for the year ended 31 December 2015.

On the basis of the foregoing, we are of the opinion that the Profit Estimates, for which the Directors are solely responsible, has been made with due care and consideration.

We hereby give and have not withdrawn our consent to the issue of the Composite Document with the inclusion therein of this report.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

1. RESPONSIBILITY STATEMENTS

The directors of the Offeror and directors of HNA Group jointly and severally accepts full responsibility for the accuracy of the information contained in this Composite Document (other than that relating to the Vendors, the Group or their respective director(s)), and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by the Directors) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, details of interests in the Shares, underlying Shares, debentures or other relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company held or controlled by the Offeror and parties acting in concert with it were as follows:

Name of Offeror/ parties acting in concert with it	Capacity	Number of Shares held/ interested	Approximately percentage of the Company's issued share capital
The Offeror	Beneficial owner	196,171,395	61.39%
HNA Ecotech (HK) Co. Limited	Interest in controlled corporation	196,171,395	61.39%
海航生態科技集團有限公司 (HNA EcoTech Group Co., Ltd.*)	Interest in controlled corporation	196,171,395	61.39%
HNA Group	Interest in controlled corporation	196,171,395	61.39%
海南交管控股有限公司 (Hainan Traffic Administration Holding Co. Ltd.*)	Interest in controlled corporation	196,171,395	61.39%
盛唐發展(洋浦)有限公司 (Tang Dynasty Development (Yangpu) Company Limited*)	Interest in controlled corporation	196,171,395	61.39%
海南省慈航公益基金會 (Hainan Province Cihang Foundation*)	Interest in controlled corporation	196,171,395	61.39%
盛唐發展有限公司 (Tang Dynasty Development Company Limited*)	Interest in controlled corporation	196,171,395	61.39%

* For identification purpose only

Save as disclosed above, as at the Latest Practicable Date, none of the Offeror, its directors and parties acting in concert with any of them had any interest in the relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company.

3. ADDITIONAL DISCLOSURE OF INTERESTS AND DEALINGS

As at the Latest Practicable Date:

- (a) save as disclosed in the paragraph headed “Disclosure of Interests” in this appendix V, and save for the Acquisition pursuant to the Sale and Purchase Agreement (which was completed on 13 January 2017) by the Offeror, none of the Offeror, its directors, or any persons acting in concert with any of them (i) owned or controlled any Shares, convertible securities, warrants, options of the Company or any derivatives in respect of such securities; or (ii) had dealt for value in any Shares, convertible securities, warrants, options of the Company or any derivatives in respect of such securities during the Relevant Period;
- (b) the Offeror had no intention to transfer, charge or pledge the Shares acquired in pursuance with the Offer to any other persons;
- (c) no person who owned or controlled any Shares or other securities of the Company carrying voting rights or convertible securities, warrants, options or derivatives of the Company had irrevocably committed himself to accept or reject the Offer;
- (d) neither the Offeror nor persons acting in concert with it, had entered into any arrangement (whether by way of option, indemnity or otherwise) of any kind referred to in Note 8 to Rule 22 of the Takeovers Code with any other persons in relation to the Shares during the Relevant Period;
- (e) neither the Offeror nor persons acting in concert with it, had borrowed or lent any Shares or any other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company during the Relevant Period;
- (f) save for the Sale and Purchase Agreement, there was no agreement, arrangement or understanding (including any compensation arrangement) exist as at the Latest Practicable Date between the Offeror or persons acting in concert with it and any directors of the Company, recent directors of the Company, Shareholders or recent Shareholders having any connection with or was dependent upon the Offer;
- (g) there is no agreement or arrangement to which the Offeror or person acting in concert with it, is a party which relates to circumstances in which the Offeror may or may not seek to invoke a pre-condition or a condition to the Offer; and
- (h) no benefit was or will be given to any director of the Company as compensation for loss of office in any members of the Group or otherwise in connection with the Offer.

4. MARKET PRICES

The table below sets out the closing price of the Shares quoted on the Stock Exchange on (i) the last Business Day of each of the calendar months during the Relevant Period; (ii) the Last Trading Day; and (iii) the Latest Practicable Date:

	Closing price (HK\$)
30 June 2016	1.351A
29 July 2016	1.448A
31 August 2016	1.486A
30 September 2016	1.419A
31 October 2016	1.410
30 November 2016	1.400
30 December 2016	2.450
9 January 2017 (being the Last Trading Day)	2.260
27 January 2017	2.660
24 February 2017 (being the Latest Practicable Date)	2.660

A = Adjusted

During the Relevant Period, the highest and lowest closing prices of the Shares as quoted on the Stock Exchange were HK\$2.67 per Share on 19 January 2017 and HK\$1.332 (adjusted) per Share on 7 July 2016, respectively.

5. EXPERTS AND CONSENTS

The following are the qualifications of Fortune Financial and Fortune Securities, whose opinion or advice are contained or referred to in this Composite Document:

Name	Qualification
Fortune Financial	A licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO
Fortune Securities	A licensed corporation to carry out Type 1 (dealing in securities) regulated activity under the SFO

Each of Fortune Financial and Fortune Securities has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion of the text of its letter, advice and/or references to its name, in the form and context in which they appear herein.

6. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) during normal business hours from 9:00 a.m. to 5:00 p.m. (other than Saturdays, Sundays and public holidays) at the principal place of business of the Company in Hong Kong at Units 2010–2013, 20th Floor, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Hong Kong; (ii) on the website of the SFC (www.sfc.hk); and (iii) on the website of the Company (www.acs.com.hk) during the period from the date of this Composite Document up to and including the Closing Date:

- (a) the memorandum and articles of association of the Offeror;
- (b) the letter from Fortune Securities, the text of which is set out on pages 6 to 13 of this Composite Document;
- (c) the written consents referred to under the paragraph headed “5. Experts and Consents” in this appendix V;
- (d) the Sale and Purchase Agreement.

7. MISCELLANEOUS

- (a) Set out below are details of the Offeror and its directors:

Registered Address

Walkers Corporate Limited,
Cayman Corporate Centre,
27 Hospital Road, George Town,
Grand Cayman KY1-9088,
Cayman Islands

Directors

Mr. Yu Yanbing
Mr. Peng Fang
Mr. Ke Shengcan

Correspondence Address

3F Building 8,
Yonghe Hangxing Science Park,
Dongcheng District,
Beijing 100013,
People’s Republic of China

- (b) As at the Latest Practicable Date, the board of directors of HNA Group comprises Mr. Chen Feng, Mr. Wang Jian, Mr. Li Xianhua, Mr. Tan Xiangdong, Mr. Chen Wenli, Mr. Lu Ying, Mr. Zhang Ling, Mr. Huang Qijun, Mr. Xin Di, Mr. Tang Liang and Mr. Tong Fu.
- (c) The principal members of the Offeror’s concert group include the Offeror, HNA Group and any party acting in concert with any of them.

- (d) The main business address of Fortune Securities is situated at 35/F., Office Tower, Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong.
- (e) The main business address of Fortune Financial is situated at 35/F., Office Tower, Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong.

1. RESPONSIBILITY STATEMENT

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than that relating to the Offeror and parties acting in concert with it), and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than that expressed by directors of the Offeror) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statements in this Composite Document misleading.

2. SHARE CAPITAL OF THE COMPANY

As at the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

Authorised share capital:

	<i>HK\$</i>
<u>1,000,000,000</u> Shares	<u>100,000,000</u>

Issued and fully paid share capital:

<u>319,564,892</u> Shares	<u>31,956,489.20</u>
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All the issued Shares rank *pari passu* with each other in all respects including all rights as to dividends, voting and return of capital. The Company had no debt securities in issue as at the Latest Practicable Date.

As disclosed in the announcements of the Company dated 23 September 2016, 13 October 2016 and 11 November 2016 and the prospectus of the Company dated 21 October 2016, the Company issued the Rights Shares on 14 November 2016. Save for the Rights Issue, there had been no alteration to the issued capital of the Company since 31 December 2015, the date to which the latest audited accounts of the Group were made up, up to the Latest Practicable Date.

None of the securities of the Company has been listed or dealt in on any stock exchange other than the Stock Exchange and no such listing or permission to deal is being or is proposed to be sought.

As at the Latest Practicable Date, the Company had no outstanding derivatives, options, warrants, conversion rights or other similar rights which are convertible or exchangeable into the Shares.

As at the Latest Practicable Date, no capital of any member of the Group was under option, or agreed conditionally or unconditionally to be put under option. As at the Latest Practicable Date, there was no arrangement under which future dividends are waived or agreed to be waived.

3. DISCLOSURE OF INTERESTS

(a) Directors' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company

As at the Latest Practicable Date, the interests and short positions of each of the Directors 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 SFO) (i) which were required 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 were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to Section 352 of the SFO, to be and were entered in the register required to be kept by the Company referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Name of Directors	Long position in the Shares				Total number of Shares held	Approximate percentage of the Company's issued share capital
	Personal interests	Family interests	Corporate interests	Other interests		
Mr. Lo Kar Chun, SBS, JP (Note)	450,000	-	-	-	450,000	0.14%

Note:

1. Mr. Lo Kar Chun, SBS, JP is an independent non-executive Director.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors of the Company had or was deemed to have any interests or short positions in the shares or the underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provision of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be and were entered in the register required to be kept by the Company referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Substantial Shareholders' Interests and Short Positions in the Shares and Underlying Shares of the Company

As at the Latest Practicable Date, so far as was known to the Directors, the following persons (other than the Directors of the Company) had, or were deemed or taken to have an interest or short position in the Shares or underlying Shares which are required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, or who were directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name of Substantial Shareholders	Capacity	Total number of Shares held (Note 1)	Approximate percentage of the Company's issued share capital
HNA EcoTech Pioneer Acquisition (Note 2)	Beneficial owner	196,171,395(L)	61.39%
HNA Ecotech (HK) Co. Limited (Note 2)	Interest in controlled corporation	196,171,395(L)	61.39%
海航生態科技集團有限公司 (HNA EcoTech Group Co., Ltd.*) (Note 2)	Interest in controlled corporation	196,171,395(L)	61.39%
HNA Group (Note 2)	Interest in controlled corporation	196,171,395(L)	61.39%
海南交管控股有限公司 (Hainan Traffic Administration Holding Co. Ltd.*) (Note 2)	Interest in controlled corporation	196,171,395(L)	61.39%
盛唐發展(洋浦)有限公司 (Tang Dynasty Development (Yangpu) Company Limited*) (Note 2)	Interest in controlled corporation	196,171,395(L)	61.39%
海南省慈航公益基金會 (Hainan Province Cihang Foundation*) (Note 2)	Interest in controlled corporation	196,171,395(L)	61.39%

Notes:

- (1) The letter "L" denotes long position in the Shares.
- (2) The Offeror is held as to 100% by HNA Ecotech (HK) Co. Limited which in turn is held as to 100% by 海航生態科技集團有限公司 (HNA EcoTech Group Co., Ltd.*). 海航生態科技集團有限公司 (HNA EcoTech Group Co., Ltd.*) is held as to more than one-third by HNA Group, which in turn is owned as to 70% by 海南交管控股有限公司 (Hainan Traffic Administration Holding Co. Ltd.*). 海南交管控股有限公司 (Hainan Traffic Administration Holding Co. Ltd.*) is held as to 50% by 盛唐發展(洋浦)有限公司 (Tang Dynasty Development (Yangpu) Company Limited*) which in turn is held as to 65% by 海南省慈航公益基金會 (Hainan Province Cihang Foundation*). HNA Ecotech (HK) Co. Limited, 海航生態科技集團有限公司 (HNA EcoTech Group Co., Ltd.*), HNA Group, 海南交管控股有限公司 (Hainan Traffic Administration Holding Co. Ltd.*), 盛唐發展(洋浦)有限公司 (Tang Dynasty Development (Yangpu) Company Limited*) and 海南省慈航公益基金會 (Hainan Province Cihang Foundation*) are therefore deemed to be interested in Shares held by the Offeror under the SFO.

* For identification purposes only.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors of the Company) who had, or was deemed or taken to have, an interest or short position in the Shares and underlying Shares of the Company which are required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, or who were directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

4. DEALINGS IN SECURITIES AND ARRANGEMENTS IN RELATION TO DEALINGS

- (a) As at the Latest Practicable Date, the Company did not have any shareholding in the shares, convertible securities, warrants, options and derivatives of the Offeror, and the Company had not dealt for value in any shares, convertible securities, warrants, options or derivatives of the Offeror during the Relevant Period.
- (b) As at the Latest Practicable Date, save for Mr. Lo Kar Chun, *SBS, JP* who is interested in 450,000 Shares, none of the Directors had any interests in any Shares, convertible securities, warrants, options or other derivatives of the Company.
- (c) Save as disclosed below, none of the Directors had dealt for value in any Shares, convertible securities, warrants, options or other derivatives of the Company during the Relevant Period.

Date	Name of Director	Purchase/Sale	Number of Shares involved	Price per Share
30 June 2016	Mr. Wong Chi Ho	Purchase	80,000	HK\$1.400
7 July 2016	Mr. Wong Chi Ho	Purchase	72,000	HK\$1.396 (on average)
23 September 2016	Ms. Tsui Kam Ling	Purchase (under the Rights Issue)	14,201,515	HK\$1.140
23 September 2016	Mr. Wong Chi Ho	Purchase (under the Rights Issue)	3,301,906	HK\$1.140
23 September 2016	Mr. Wong Chi Kit	Purchase (under the Rights Issue)	4,293,400 (Note 1)	HK\$1.140

Date	Name of Director	Purchase/Sale	Number of Shares involved	Price per Share
25 October 2016	Mr. Lo Kar Chun, <i>SBS, JP</i>	Purchase (under the Rights Issue)	50,000	HK\$1.140
13 January 2017	Ms. Tsui Kam Ling	Sale (under the Sale and Purchase Agreement)	127,813,637	HK\$2.660
13 January 2017	Mr. Wong Chi Ho	Sale (under the Sale and Purchase Agreement)	29,717,158	HK\$2.660
13 January 2017	Mr. Wong Chi Kit	Sale (under the Sale and Purchase Agreement)	38,640,600 <i>(Note 2)</i>	HK\$2.660

Notes:

- (1) 3,275,400 Shares were held by Mr. Wong Chi Kit and 1,018,000 Shares were held by his wife Ms. Chan Angelica Sheung Ying.
- (2) 29,478,600 Shares were held by Mr. Wong Chi Kit and 9,162,000 Shares were held by his wife Ms. Chan Angelica Sheung Ying.
- (d) As at the Latest Practicable Date, none of the Directors had any interests in any shares, convertible securities, warrants, options or other derivatives of the Offeror, and none of the Directors had dealt for value in any shares, convertible securities, warrants, options or other derivatives of the Offeror during the Relevant Period.
- (e) None of (i) the subsidiaries of the Company; (ii) the pension fund of the Company or of a subsidiary of the Company; or (iii) any advisers to the Company (as specified in class (2) of the definition of “associate” under the Takeovers Code) had any interest in the Shares, convertible securities, warrants, options or derivatives of the Company as at the Latest Practicable Date, and none of them had dealt in any Shares, convertible securities, warrants, options or derivatives of the Company during the Offer Period and ending on the Latest Practicable Date.
- (f) No person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of “associate” under the Takeovers Code, and as such there is no dealing by such first-mentioned person in any Shares, convertible securities, warrants, options or derivatives of the Company during the Offer Period and ending on the Latest Practicable Date.

- (g) No Shares, convertible securities, warrants, options or derivatives of the Company were managed on a discretionary basis by any fund managers connected with the Company as at the Latest Practicable Date, and none of them had dealt in any Shares, convertible securities, warrants, options or derivatives of the Company during the Offer Period and ending on the Latest Practicable Date.
- (h) As at the Latest Practicable Date, the Director who is interested in the Shares (i.e. Mr. Lo Kar Chun, *SBS, JP* who is interested in 450,000 Shares, representing approximately 0.14% of the entire issued share capital of the Company as at the Latest Practicable Date) had expressed his intention to accept the Offer in whole in respect of his interest in the Shares.
- (i) As at the Latest Practicable Date and during the Relevant Period, no Shares or other securities of the Company carrying voting rights or convertible securities, warrants, options or derivatives of the Company had been borrowed or lent by any of the Directors or by the Company.
- (j) As at the Latest Practicable Date, no benefit (other than statutory compensation) was or will be given to any Director as compensation for loss of office in any members of the Group or otherwise in connection with the Offer.
- (k) As at the Latest Practicable Date, there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Offer or otherwise connected with the Offer.
- (l) As at the Latest Practicable Date, there was no material contract entered into by the Offeror in which any Director has a material personal interest.

5. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

6. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, the Company had entered into the following service agreements or appointment letters with the Directors:

- (a) the service agreement dated 24 October 2016 entered into between the Company and Ms. Tsui Kam Ling, pursuant to which Ms. Tsui Kam Ling's appointment as an executive Director was renewed for a further period of two years commencing from 27 October 2016 to 26 October 2018 and she is entitled to receive a salary of HK\$1,080,000 per annum, and a discretionary year-end bonus and other non-cash benefits as may be determined by the Board with reference to the performance of the Company. Before entering into the aforesaid service agreement, Ms. Tsui Kam Ling entered into a service agreement with the Company on 23 October 2014, pursuant to which Ms. Tsui Kam Ling's appointment as an executive Director was for a period of two years commencing from 27 October 2014 to 26 October 2016 and she was entitled to receive a salary of HK\$1,080,000 per annum, and a discretionary year-end bonus and other non-cash benefits as may be determined by the Board with reference to the performance of the Company;

- (b) the service agreement dated 24 March 2015 entered into between the Company and Mr. Wong Chi Ho, pursuant to which Mr. Wong Chi Ho was appointed as an executive Director for a period of two years commencing from 24 March 2015 to 23 March 2017 and entitled to receive a salary of HK\$1,068,000 per annum, and a discretionary year-end bonus and other non-cash benefits as may be determined by the Board with reference to the performance of the Company;
- (c) the service agreement dated 24 March 2015 entered into between the Company and Mr. Wong Chi Kit, pursuant to which Mr. Wong Chi Kit was appointed as an executive Director for a period of two years commencing from 24 March 2015 to 23 March 2017 and entitled to receive a salary of HK\$1,068,000 per annum, and a discretionary year-end bonus and other non-cash benefits as may be determined by the Board with reference to the performance of the Company;
- (d) the appointment letter dated 12 June 2015 signed by Ms. Kaung Cheng Xi Dawn with the Company, pursuant to which Ms. Kaung Cheng Xi Dawn was appointed as an independent non-executive Director for a period of two years commencing from 24 March 2015 to 23 March 2017 and entitled to receive a Director's fee of HK\$120,000 per annum;
- (e) the appointment letter dated 17 March 2016 signed by Mr. Lo Kar Chun, *SBS, JP* with the Company, pursuant to which Mr. Lo Kar Chun, *SBS, JP* was appointed as an independent non-executive Director for a period of two years commencing from 17 March 2016 to 16 March 2018 and entitled to receive a Director's fee of HK\$120,000 per annum; and
- (f) the appointment letter dated 10 June 2016 signed by Mr. Yim Kai Pung with the Company, pursuant to which Mr. Yim Kai Pung's appointment as an independent non-executive Director was renewed for a further period of two years commencing from 10 June 2016 to 9 June 2018 and he is entitled to receive a Director's fee of HK\$120,000 per annum. Before signing the aforesaid appointment letter, Mr. Yim Kai Pung signed an appointment letter with the Company on 10 June 2014, pursuant to which Mr. Yim Kai Pung's appointment as an independent non-executive Director was for a period of two years commencing from 10 June 2014 to 9 June 2016 and he was entitled to receive a Director's fee of HK\$120,000 per annum.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had entered into any service contract with the Company or any of its subsidiaries or associated companies which (i) (including both continuous and fixed-term contracts) had been entered into or amended within six months before the date of commencement of the Offer Period; (ii) was a continuous contract with a notice period of 12 months or more; (iii) was a fixed term contract with more than 12 months to run irrespective of the notice period; or (iv) was not determinable by the employer within one year without payment of compensation (other than statutory compensation).

7. MATERIAL CONTRACTS

During the period commencing on the date which is two years immediately preceding 5 December 2016, being the date of commencement of the Offer Period, up to the Latest Practicable Date, the following contracts, not being contracts entered into the ordinary course of business, have been entered into by the Group and are or may be material:

- (a) underwriting agreement dated 23 September 2016 entered into between the Company and Quam Securities Company Limited in relation to the Rights Issue; and
- (b) irrevocable undertaking dated 23 September 2016 given by each of the Vendors in relation to, among other things, subscription for the Rights Shares provisionally allotted to him/her under the provisional allotment letter for the Rights Issue.

8. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given opinions or advice which are contained or referred to in this Composite Document:

Name	Qualification
Gram Capital Limited	a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO
KPMG	Certified Public Accountants

Each of Gram Capital and KPMG has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion herein of its letter or advice and/or references to its name, in the form and context in which it appears.

9. MISCELLANEOUS

- (a) The financial controller of the Company is Ms. Suen Yu May Sammi. She is a member of the Hong Kong Institute of Certified Public Accountants.
- (b) The company secretary of the Company is Ms. Lee Ka Man.
- (c) The registered office of the Company is situated at P.O. Box 309, Uglan House, Grand Cayman, KY1-1104, Cayman Islands and the principal place of business of the Company is situated at Units 2010–2013, 20th Floor, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Hong Kong.
- (d) The principal share registrar of the Company is Royal Bank of Canada Trust Company (Cayman) Limited of 4th Floor, Royal Bank House, 24 Shedden Road, George Town, Grand Cayman, KY1-1110, Cayman Islands.

- (e) The Hong Kong branch share registrar of the Company is Computershare Hong Kong Investor Services Limited of Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.
- (f) The registered office of Gram Capital is at Suite 1209, 12/F, Nan Fung Tower, 173 Des Voeux Road, Central, Hong Kong.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) during normal business hours from 9:00 a.m. to 5:00 p.m. (other than Saturdays, Sundays and public holidays) at the principal place of business of the Company in Hong Kong at Units 2010–2013, 20th Floor, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Hong Kong; (ii) on the website of the SFC (www.sfc.hk); and (iii) on the website of the Company (www.acs.com.hk) during the period from the date of this Composite Document up to and including the Closing Date:

- (a) the memorandum and articles of association of the Company;
- (b) the annual report of the Company for the two financial years ended 31 December 2014 and 2015;
- (c) the interim report of the Company for the six months ended 30 June 2016;
- (d) the letter from the Board as set out on pages 14 to 18 of this Composite Document;
- (e) the letter from the Independent Board Committee as set out on pages 19 and 20 of this Composite Document;
- (f) the letter from Gram Capital as set out on pages 21 to 32 of this Composite Document;
- (g) the letter from KPMG on the Profit Estimate as set out on pages 107 to 108 in Appendix III of this Composite Document;
- (h) the letter from Gram Capital on the Profit Estimate as set out on pages 109 to 110 in Appendix IV of this Composite Document;
- (i) the service agreements and appointment letters referred to in the paragraph headed “6. Directors’ Service Contracts” in this appendix VI;
- (j) the material contracts referred to in the paragraph headed “7. Material Contracts” in this appendix VI; and
- (k) the written consents from the experts referred to in the paragraph headed “8. Experts and Consents” in this appendix VI.