Advanced Card Systems Holdings Limited

龍傑智能卡控股有限公司*

(incorporated in the Cayman Islands with limited liability)

Stock code: 2086

Annual Report 2015

* *For identification only*

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors
Ms. Tsui Kam Ling *(Chairman)*
Mr. Wong Chi Ho *(appointed on 24 March 2015)*
Mr. Wong Chi Kit *(appointed on 24 March 2015)*
Mr. Wong Yiu Chu
(re-designated on 24 March 2015)
Mr. Tan Keng Boon

Non-executive Director
Mr. Wong Yiu Chu
(re-designated on 24 March 2015 and deceased on 30 March 2015)

Independent Non-executive Directors
Ms. Kaung Cheng Xi Dawn
(appointed on 24 March 2015)
Mr. Lo Kar Chun, SBS, JP
Mr. Wong Yick Man Francis
(retired on 29 April 2015)
Mr. Yim Kai Pung

AUTHORISED REPRESENTATIVES

Mr. Wong Chi Ho
Mr. Wong Chi Kit

COMPANY SECRETARY

Ms. Lee Ka Man, ACS, ACIS

COMPLIANCE OFFICER

Mr. Wong Chi Ho

AUDIT COMMITTEE

Mr. Yim Kai Pung *(Chairman)*
Ms. Kaung Cheng Xi Dawn
Mr. Lo Kar Chun, SBS, JP

REMUNERATION COMMITTEE

Mr. Lo Kar Chun, SBS, JP *(Chairman)*
Mr. Wong Chi Kit
Mr. Yim Kai Pung

NOMINATION COMMITTEE

Ms. Tsui Kam Ling *(Chairman)*
Ms. Kaung Cheng Xi Dawn
Mr. Lo Kar Chun, SBS, JP
Mr. Wong Chi Ho
Mr. Yim Kai Pung

AUDITOR

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road, Central
Hong Kong

REGISTERED OFFICE

P.O. Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

HEAD OFFICE & PRINCIPAL PLACE OF BUSINESS

Units 2010–2013, 20th Floor
Chevalier Commercial Centre
8 Wang Hoi Road, Kowloon Bay
Hong Kong

PRINCIPAL BANKERS

Citibank, N.A.
DBS Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman, KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

COMPANY'S WEBSITE ADDRESS

www.acs.com.hk

STOCK CODE

2086

CHAIRMAN'S STATEMENT

On behalf of Advanced Card Systems Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group"), I am pleased to present the Group's annual results for the year ended 31 December 2015.

2015 was a year of joy and grief for the Group. While we grieved the loss of our Honorary Chairman, the late Mr. Wong Yiu Chu in March 2015, the Group upheld his philosophy of continuing research and development of new products and providing quality service to customers, which, in turn, yielded steady progress in our business. During the year, we celebrated the transfer of the Group's listing from the Growth Enterprise Market (the "GEM") to the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). On 29 September 2015, the Company's shares started trading on the main board. The attainment of this significant breakthrough in the Group was made possible by the dedication of every member of the Group and the continuous support from our business partners and shareholders. The Group expects that the successful transfer of share listing will enhance its corporate image and boost investors' and business partners' confidence in the Group, thereby facilitating stronger business, providing better access to capital, and bringing other benefits.

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. In spite of operating amidst challenges, we, by leveraging our enriched experience in the industry, took measures to boost our efficiency, explore new markets and projects, and strengthen vital relationships with different stakeholders.

Selling prices of certain products were adjusted downward in 2015 with the intention of maintaining market share or building up market share of new products. Nonetheless, we managed to lower material cost to maintain gross profit margin by bulk purchasing from suppliers and revising bills of materials from time to time. The Group maintained its gross profit margin at around 50% in both 2015 and 2014.

The Group's excellent performance was widely recognised by the market and industry. The Company was honored by the inclusion of the Group within Forbes Asia's "Best Under A Billion". This list ranks the top one percent of publicly listed Asia-Pacific companies. It is the third time that the Company has been included in this prestigious list, the other times being in 2010 and 2014. Inspired and encouraged by such recognition, we will go from strength to strength with a pursuit of excellence.

The Group has also entered the EMV bank card personalisation business. In 2016, Goldpac ACS Technologies Inc. ("GATI"), a joint venture company of the Group, secured one of the largest banks in the Philippines as a client.

Looking forward, the Group targets to retain leadership in the PC-linked readers market and continues to make use of its technological expertise, experience, and connections to expand the End-to-End solution market. The Group is facing with rapid changes in the smart card related industry in terms of technology and market trends. The Group will actively prepare itself to enter into payment market by taking advantage of its technological expertise, experience, and connections to develop new products for the payment industry. The Group considers payment terminals and Java cards as new growth drivers of the Group in future. The Group aims to enter the EFT-POS terminal market in 2016. The Group is optimistic about its entry into the EFT-POS terminal market. Aside from its experience in technology development and certification, the Group enjoys a favorable reputation as a developer of quality technologies, and has key customer relationships to mitigate the risk of entering the market. The Group is developing a cryptographic smart card operating system solution that is powered by Java and compliant with Global Platform Card specifications, which is equipped with powerful cryptographic capabilities. These functionalities enhance the security and performance of cryptographic operations and data management. Both are essential to fulfilling the security requirements of smart card applications.

Last but not least, I would like to take this opportunity to express my gratitude to all the members of the Group for their dedication and hard work. We extend our heartfelt gratitude to the enormous contributions from Founder, the late Mr. Wong Yiu Chu, who passed away in 2015, over the past 20 years and he will always be remembered. I would also like to thank our business partners and shareholders for their continuous support.

TSUI Kam Ling
Chairman

Hong Kong, 22 March 2016

From left: Mr. Yim Kai Pung, Ms. Kaung Cheng Xi Dawn, Mr. Wong Chi Ho, Ms. Tsui Kam Ling, Mr. Wong Chi Kit, Mr. Tan Keng Boon, Mr. Lo Kar Chun, SBS, JP

MANAGEMENT DISCUSSION AND ANALYSIS

2015 was a challenging year for the Group that the Group recorded a loss for the first quarter, lost our Honorary Chairman, the late Mr. Wong Yiu Chu, and faced global economy downturn started from August 2015. During the year, the Group focused on maintaining its sales revenue and controlling its expenses even under the above unfavorable factors, eventually, the Group successfully maintained its profitability and continued to generate appropriate return to investors for 2015.

FINANCIAL REVIEW

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

Revenue

The Group's sales revenue for the year ended 31 December 2015 decreased by 5% compared to the previous year. The decrease in revenue is mainly due to the project cycle of solution business. Several significant projects were completed by the end of 2014, such as installation of kiosks and turnstiles in cinemas and Mall of Asia Arena in Manila under SM Prime Holdings, Inc.. Therefore, the Group had only recorded minimal income from its solution business before June 2015. The Group has obtained orders for, and started working on some new projects, such as Cebu Bus Rapid Transit Project (the "Cebu BRT") (please refer to page 11 for details of the project), starting from June 2015. Although some of the software and hardware of these new projects were already delivered and were recognised as revenue of the Group in 2015, total revenue contributed by solution business decreased when compared with 2014 as these new projects were not yet completed as at 31 December 2015 and will continue to contribute revenue to the Group in 2016.

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

FINANCIAL REVIEW *(continued)*

Maintain Stable Profitability

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

Payment of Life Insurance Benefit

Payment of benefit amounting to US$1,300,000 (equivalent to HK$10,140,000) under the life insurance policy for the late Mr. Wong Yiu Chu, who was a non-executive Director and the Honorary Chairman of the board of directors (the "Board") prior to his passing away, was received on 22 May 2015, as disclosed in the Company's announcements dated 14 and 26 May 2015. The amount was recorded as other income for the year ended 31 December 2015.

Transfer Listing Expenses and Cost Control

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

FINANCIAL REVIEW *(continued)*

Transfer Listing Expenses and Cost Control *(continued)*

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

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

Share of Results of a Joint Venture

In addition, the Group shared losses of HK$1,358k (2014: HK$205k) from a joint venture, namely GATI. The joint venture was established in late 2014, it was still in start up stage and had not generated any revenue in 2015. GATI has commenced operation in 2016 and details of which are set out in page 11.

FINANCIAL REVIEW *(continued)*

Statement of Financial Position

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

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

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

DIVIDEND

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

The declaration, payment, and amount of future dividend will be decided by the Board and will depend upon, among other things, the Group's results of operations, capital requirements, cash flows, general financial condition and such other factors as the Board may consider important.

BUSINESS REVIEW

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

Trusted Relationships with Distributors, Suppliers and Subcontractors

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

The Group continues to provide quality products, backed by major and international certifications, to maintain trusted relationships with customers and also distributors. In addition, the Group's existing products and projects have continued to receive recognition from award-giving bodies (for details please refer to page 38 of the report). The quality of the Group's products is complemented by high level of service and comprehensive marketing efforts. The Group conducted a global survey in 2015 among its top clients in terms of sales volume, measuring satisfaction with its products, services, personnel, and so forth. 92% of the Group's top customers described their overall satisfaction level with the Group as "good" to "very good", which is 4 to 5 in a five-point scale. Starting from 2007, the Group surveys its high-volume clients annually, and the characterisation of customers of their overall satisfaction level with the Group as "good" to "very good" has been consistent for the past nine years. The Group has built up a reliable global distribution network with its trusted distributors by providing high quality and customised products.

Late Chinese New Year and the Temporary Labour Shortage

As a result of the late Chinese New Year in 2015 and the temporary labour shortage of subcontractors after the Chinese New Year holiday, the Group's onward sales of products to its customers did not occur as expected during the quarter ended 31 March 2015. Consequently, revenue dropped by HK$13 million to HK$37 million (2014: HK$50 million) and the Group recorded a net loss of HK$8 million (2014: a net profit of HK$6 million) for the first quarter of 2015.

Workforce Streamlining

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

BUSINESS REVIEW *(continued)*

Listing on Main Board of the Stock Exchange

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

New Products and Services

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

ACR3901U-S1 Bluetooth Smart Card Reader

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

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

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

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

BUSINESS REVIEW *(continued)*

New Products and Services *(continued)*

Intelligent Transportation System ("ITS") solutions

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

EMV bank card personalisation services

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

BUSINESS REVIEW *(continued)*

Events

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

Smart Card Alliance Payments Summit 2015

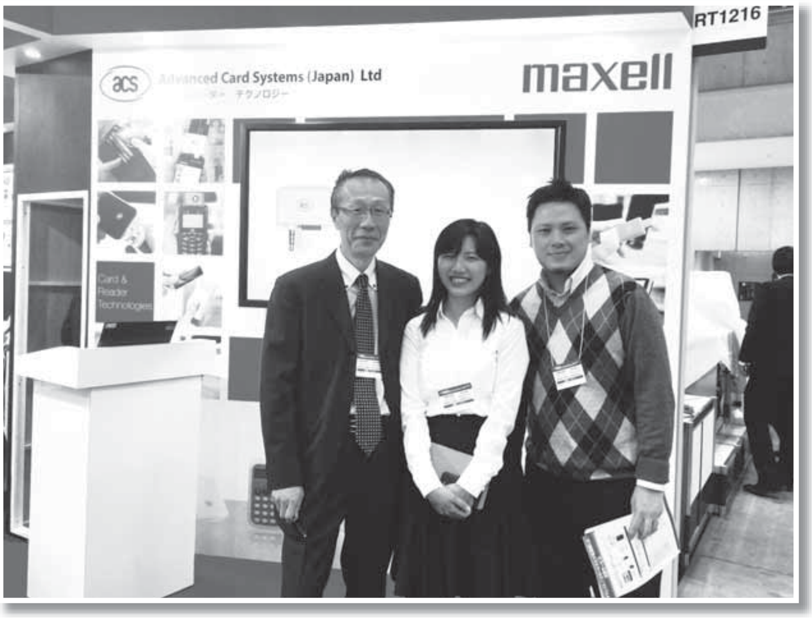
Retail Tech Japan 2015

Cards and Payments Asia 2015

Smart Card Alliance Government Conference 2015

Cards and Payments Philippines 2015

NFC Solutions Summit 2015



Retail Tech Japan 2015

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

Continuity in Management

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



PROSPECTS

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

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

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

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

Entry into the Java Card Market

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

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

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

RISK FACTORS

The Group's results of operations, financial condition and growth prospects may be affected by risks and uncertainties directly or indirectly pertaining to the Group's businesses. The risk factors set out below are those that could result in the Group's results of operations, financial condition and growth prospects differing materially from expected or historical results. Such factors are by no means exhaustive or comprehensive and there may be other risks in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

Operation Risk

Reliance on a limited number of large customers

Sales to the largest customer and top five customers accounted for 17% and 45% of the Group's turnover for the year ended 31 December 2015 (2014: 21% and 49%). 3 customers were being the top five customers for both 2014 and 2015. There is no assurance that the demand for the products of the Group from these customers can be maintained in the future. In the event that the demand from them decreases significantly and the Group is unable to find replacement customers on terms acceptable to the Group, results of operations of the Group may be adversely affected.

Reliance on certain independent manufacturers for manufacturing smart card related products

The Group does not own any production facilities. It subcontracts substantially all of its production activities to external manufacturers in the People's Public of China. During the year ended 31 December 2015, the Group has engaged 3 manufacturers for smart card and 3 manufacturers for smart card readers, all these manufacturers were engaged by the Group for at least over 4 years. Financial or other difficulties faced by these manufacturers or any change in the Group's relationship with these manufacturers could affect the Group's ability to meet scheduled product deliveries to its customers and may in turn adversely affect the Group's business operations.

Reliance on ability to attract and retain skilled engineers

The performance of the Group depends, to a significant extent, on the continued services and performance of its research, development and deployment teams. As at 31 December 2015, 60% (2014: 63%) of full time employees of the Group are engineers for research, development and deployment and 25% (2014: 14%) of them served the Group for over 5 years. Competition for employees with the requisite skills, qualifications and experience in the industry is intense. If the Group is unable to attract, retain and motivate skilled engineers in the future, the operations of the Group may be adversely affected.

RISK FACTORS *(continued)*

Business Risk

Rapid changes in technology

The Group operates in a market which is characterised by rapid changes in technology, industry standards, customer preferences and frequent introductions and enhancements of products and services. Accordingly, the performance of the Group will depend on its ability to improve the functions and reliability of its products and services and adapt to new industry standards and customer preferences. In the event that the Group fails to adapt successfully to such changes, the results of operations and growth prospects of the Group may be adversely affected.

Substantial capital expenditure on new products and services

The introduction of new products and services in response to rapid changes in technology, industry standards and customer preferences require substantial capital expenditure. During the year ended 31 December 2015, the Group recorded an addition of HK$16 million (2014: HK$16 million) on development costs of new products and services and as at 31 December 2015, balance of development costs of new products and services amounted to HK$44 million (2014: HK$39 million). It was estimated that approximately at least HK$15 million further costs, which mainly referred to staff cost and certificate cost, will be incurred to complete most of the existing projects of new products and services. The substantial capital expenditure may have an adverse impact on the financial resources of the Group. In the event the new products and services do not achieve market acceptance or there is substantial delay in the process, the results of operations and growth prospects of the Group may be adversely affected.

Financial Risk

The Group is exposed to a variety of key financial risks including credit risk and liquidity risk, details of the aforesaid key risks and risk mitigation measures are elaborated in note 26 “Financial risk management and fair values of financial instruments” to the financial statements of this annual report.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

At all times the Group maintains a healthy liquidity position. As at 31 December 2015, the Group's cash and cash equivalents amounted to HK$39 million (31 December 2014: HK$36 million). The bank borrowings of the Group amounted to HK$44 million as at 31 December 2015 (31 December 2014: HK$35 million), which are denominated in Hong Kong dollars ("HK$") and United States dollars ("US$"), interest bearing at floating rates and repayable within five years. The gearing ratio as at 31 December 2015, being the total interest bearing debts over the total equity, was 0.33 (31 December 2014: 0.30). Net asset value as at 31 December 2015 was HK$131 million (31 December 2014: HK$117 million).

The Group's equity capital, bank borrowings, together with the cash generated from operating activities, has been applied to fund its working capital and other operational needs. During the year 2015, the Group recorded net cash inflow in operating activities of HK$25 million (2014: HK$22 million) with no significant changes noted, as the Group maintained stable profit from operations excluding depreciation and amortisation (2015: HK$15 million, 2014: HK$14 million). The Group recorded net cash outflow in investing activities of HK$22 million (2014: HK$26 million) during 2015. Decrease in net cash outflow was due to the decrease in capital expenditure on fixed assets (HK$2 million) and decrease in capital contribution to a joint venture (HK$3 million). The Group recorded net cash outflow in financing activities of HK$8 million in 2015 (2014: HK$8 million) without significant changes noted. In both 2014 and 2015, the Group recorded a net repayment of bank loans of around HK$1 million. As at 31 December 2015, net cash and cash equivalents in the consolidated cash flow statement amounted to HK$30 million as the Group recorded an unsecured bank overdraft amounted to HK$9 million.

DISPOSALS AND ACQUISITIONS

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

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

The assets, liabilities and transactions of the Group are primarily denominated in HK$, Euros ("EUR"), Philippine Pesos ("PHP"), US$ and Renminbi ("RMB"). As HK$ is pegged to US$, exchange risk arising from US$ does not have significant financial impact to the Group. The Group also enters into foreign exchange hedging transactions from time to time to manage its currency risk exposure on RMB, EUR and PHP. The Group's foreign exchange hedging policy and procedures are as follows:

The Group only hedges its foreign exchange exposures in sales and purchases by entering into forward contracts. Under no circumstances would the Group enter into foreign exchange hedging transactions exceeding the aggregate amount of all trade receivables and purchase orders received from customers in the relevant foreign currency nor for speculative purposes.

The Group's foreign exchange hedging is overseen by two designated executive Directors, who are assisted by the Financial Controller of the Group and the Senior Vice President of Sales and Marketing of the Group.

The Group would enter into forward contracts in the event that:

(i) the Group's currency risk exposure is considered to be significant; or

(ii) notwithstanding that the currency risk exposure is not considered to be significant, it is considered to be prudent and/or reasonable to do so to manage and/or further reduce the Group's currency risk exposure.

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

PLEDGE OF ASSETS

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

CONTINGENT LIABILITIES

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

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2015, the Group had 291 full time employees. Staff costs recognised in profit or loss amounted to HK$56 million (2014: HK$55 million). Remuneration policies and packages for the Group's employees are based on individual qualifications, performance, experience, and conditions prevailing in the industry. In addition, various training sessions are offered to employees to enhance their product and market knowledge.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Ms. TSUI Kam Ling | Chairman

Ms. Tsui Kam Ling, aged 63, is an executive Director, the Chairman of the Board and the Chairman of the Nomination Committee. She joined the Group in September 1998 and was mainly responsible for supervising the sourcing of raw materials, logistics, human resources and finance. She was appointed as an executive Director on 23 March 2005, a member of the Nomination Committee on 30 March 2012 and the Chairman of the Board on 24 March 2015. She is also the director of several subsidiaries of the Group. Prior to joining the Group, Ms. Tsui was a director of Advanced Electronics Limited, a distributor of semiconductor components until 1997 when it was acquired by Future Electronics Holdings Inc. She then worked as the Administration Manager of Future Advanced Electronics Limited until September 1998. Ms. Tsui had a teaching career from 1975 to 1983. Ms. Tsui graduated from The Chinese University of Hong Kong with a Bachelor of Arts degree in October 1975. She is the mother of Mr. Wong Chi Ho and Mr. Wong Chi Kit, both are executive Directors.

Mr. WONG Chi Ho | Co-Chief Executive Officer

Mr. Wong Chi Ho, aged 37, is an executive Director, a Co-Chief Executive Officer of the Group and a member of the Nomination Committee, all of which were appointed on 24 March 2015. He is also a director and the legal representative of several subsidiaries of the Group. He joined the Group in July 2013. He is involved in the development of the Group's smart card and smart card reader technologies. Mr. Wong Chi Ho has over eight years of engineering work experience in Silicon Valley, California, U.S.A., where he worked for Qualcomm Technologies, Inc., Nvidia Corporation and Sun Microsystems Inc.. Mr. Wong Chi Ho obtained a Master of Science in Management, Science and Engineering degree from Stanford University in California, U.S.A. in January 2005 as well as Bachelor of Science in Engineering in Electrical Engineering (Summa Cum Laude) and Master of Science in Engineering in Electrical Engineering degrees from The University of Michigan at Ann Arbor in Michigan, U.S.A. in April 2001 and April 2002, respectively. Mr. Wong Chi Ho passed Level 3 of the CFA Study and Examination Program of the CFA Institute. He is a son of Ms. Tsui and the brother of Mr. Wong Chi Kit.



Mr. WONG Chi Kit | Co-Chief Executive Officer

Mr. Wong Chi Kit, aged 32, is an executive Director, a Co-Chief Executive Officer of the Group and a member of the Remuneration Committee, all of which were appointed on 24 March 2015. He is also a director of several subsidiaries of the Group. He joined the Group in October 2008 as the Vice President of Global Sales. Mr. Wong Chi Kit became the head of business development of the Group in 2013 and he is currently in charge of the Group's solutions business, providing e-purse, automatic fare collection, retail and loyalty, and payment solutions. Mr. Wong Chi Kit graduated with a Bachelor of Arts degree with Distinction, double majoring in Psychology and Economics from The University of Michigan at Ann Arbor in Michigan, U.S.A. in December 2004. He is a son of Ms. Tsui and the brother of Mr. Wong Chi Ho.

Mr. TAN Keng Boon | Chief Technical Officer

Mr. Tan Keng Boon, aged 57, joined the Group in October 1999 as a full-time consultant of the Group and has been a full-time employee and the Chief Technical Officer of the Group since May 2003 and an executive Director since 25 October 2003. He is also a director of several subsidiaries of the Group. Mr. Tan is responsible for the implementation of a technical sales and marketing programme for existing and prospective customers of the Group. He has been involved actively in defining the product development road map of the Group and leading the engineering team in the development of new products. Previously, Mr. Tan worked for Gemplus Technologies Asia Pte. Ltd. and De La Rue Systems Asia Pte Ltd., both of which were subsidiaries of established companies in the smart card industry. Mr. Tan obtained a Bachelor of Engineering degree from the National University of Singapore in June 1983.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. KAUNG Cheng Xi Dawn

Ms. Kaung Cheng Xi Dawn, aged 35, was appointed as an independent non-executive Director on 24 March 2015. She is also a member of the Audit Committee and the Nomination Committees. Ms. Kaung Cheng Xi Dawn was a Sales Director at Avery Dennison Hong Kong B.V. from September 2014 to February 2016. Prior to joining Avery Dennison Hong Kong B.V. as Senior Manager of Global Supply Chain in February 2013, Ms. Kaung worked as an Associate with McKinsey & Company from November 2010 to January 2013. Previously, Ms. Kaung worked at Dell Inc. group of companies in U.S.A. and Singapore from July 2003 to August 2008. Ms. Kaung obtained her Master in Business Administration degree from Harvard University in Massachusetts, U.S.A. in May 2010. She also received her Master of Science in Management Science and Engineering degree from Stanford University in California, U.S.A. in June 2003 and her Bachelor of Science in Engineering in Industrial and Operations Engineering (Summa Cum Laude) degree from The University of Michigan at Ann Arbor in Michigan, U.S.A. in April 2002.

DIRECTORS AND SENIOR MANAGEMENT

Mr. LO Kar Chun, SBS, JP

Mr. Lo Kar Chun, aged 64, was appointed as an independent non-executive Director on 17 March 2014. He is also a member of the Audit Committee and the Nomination Committee, and the Chairman of the Remuneration Committee. Mr. Lo Kar Chun started his career as an Administrative Officer in the Hong Kong Government in 1974, occupying various senior positions in the Hong Kong Government during his 13 years of public service, before joining the private sector in 1987. He was the President and Chief Executive Officer in Synnex Technology International (HK) Ltd from December 1987 to December 2013 and Synnex Distributions (China) Ltd since its inception until December 2013. Mr. Lo is currently the Chairman of the Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System of the Hong Kong Special Administration Region. He is also a member of the Exchange Fund Advisory Committee in Hong Kong. Mr. Lo obtained a Bachelor of Science General (First Class Honour) degree from The University of Hong Kong in November 1973.

Mr. YIM Kai Pung

Mr. Yim Kai Pung, aged 51, was appointed as an independent non-executive Director on 10 June 2014. He is also the Chairman of the Audit Committee, and a member of the Nomination Committee and the Remuneration Committee. Mr. Yim Kai Pung has extensive experience working in CPA firms providing services of audit, tax advices and capital consultancy and planning arrangements for initial public offering services. He is a Managing Director of CCTH CPA Limited. He served as an independent non-executive director of Greens Holdings Limited (Stock Code: 1318) from 2009 to 2015; an independent non-executive director of Success Universe Group Limited (formerly known as Macau Success Limited) (Stock Code: 487) from 2004 to 2012; an executive director of Heng Xin China Holdings Limited (formerly known as Tiger Tech Holdings Limited) (Stock Code: 8046) from 2006 to 2007; and an independent non-executive director of Magician Industries (Holdings) Limited (presently known as LISI Group (Holdings) Limited) (Stock Code: 526) from 2005 to 2006. Mr. Yim graduated from the City Polytechnic of Hong Kong with a Bachelor of Arts in Accountancy degree in November 1993. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants of the United Kingdom.

SENIOR MANAGEMENT

Ms. LAI Yuen Yee | Executive Vice President

Ms. Lai Yuen Yee, aged 51, is the Executive Vice President of the Group and mainly responsible for human resources and product development. Ms. Lai joined the Group in August 2000. She is also the head of the Product Marketing Department, leading a team to focus on product management and marketing functions of the Group. She worked for Orient Overseas Container Line Ltd. for 9 years, where she started to accumulate her solid experience in sales and marketing activities for container transport services. She obtained a Bachelor of Business Administration degree from the University of East Asia, Macau in September 1987.

Mr. LEUNG Tin Chak Gilbert | Senior Vice President, Sales and Marketing

Mr. Leung Tin Chak Gilbert, aged 40, joined the Group in January 2002 as a Technical Marketing Engineer and was mainly responsible for handling activities of respective product lines. He is the Senior Vice President of Sales and Marketing, responsible for sales and marketing duties for existing and prospective customers of the Group. He has been involved actively in promoting the products of the Group, innovating smart card technologies in the market, identifying and exploring new market opportunities. Mr. Leung obtained his Bachelor of Engineering in Industrial Engineering and Engineering Management and Master of Philosophy in Industrial Engineering and Engineering Management from The Hong Kong University of Science and Technology in November 1999 and November 2001, respectively.

Ms. SUEN Yu May Sammi | Financial Controller

Ms. Suen Yu May Sammi, aged 36, joined the Group in June 2014 as the Financial Controller of the Group. Ms. Suen is responsible for the general financial planning and management and the treasury functions. Ms. Suen has over 14 years of experience in audit, finance, and accounting management through her previous financial positions with several international accounting firms and listed companies in Hong Kong. Ms. Suen obtained her Bachelor of Business Administration degree in Accounting from The Hong Kong University of Science and Technology in November 2001. She is also a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants.

For the period from 1 January 2015 to 28 September 2015, the day before the Company transfer of listing from the GEM to the main board of the Stock Exchange, the Company applied the Corporate Governance Code (the "Code") as set out in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM Listing Rules") of the Stock Exchange. The Directors are of the opinion that the Company complied with the code provisions of the Code except for the provisions A.2 and A.5.1 of the Code, which provides that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual and the nomination committee should be chaired by the chairman of the Board or an independent non-executive director. Details of the exception and the reasons for such exception are disclosed under the paragraph headed "Chairman and Chief Executive Officer" and "Nomination Committee" on page 25 and 29 respectively of this Annual Report.

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

DIRECTORS' SECURITIES TRANSACTIONS

For the period from 1 January 2015 to 28 September 2015, the Company adopted the rules governing dealings by directors in listed securities of the Company (the "dealings rules") on terms no less exacting than the required standard of dealings as referred to in Rules 5.48 to 5.67 of the GEM Listing Rules as the codes of conduct regarding securities transactions by directors and by relevant employees as defined in the Code. Started from 29 September 2015, the Company has adopted new dealings rules on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 to the Listing Rules (the "Model Code").

Having made specific enquiry of all directors of the Company, all directors of the Company confirmed that they have complied with the dealings rules under the GEM Listing Rules from 1 January 2015 to 28 September 2015 and have complied with the required standard set out in the Model Code from 29 September 2015 and 31 December 2015 regarding Directors' securities transactions.

BOARD OF DIRECTORS

The Board comprises currently 4 executive directors, namely Ms. Tsui Kam Ling (being the chairman of the Board), Mr. Wong Chi Ho, Mr. Wong Chi Kit and Mr. Tan Keng Boon; and 3 independent non-executive directors, Ms. Kaung Cheng Xi Dawn, Mr. Lo Kar Chun, SBS, JP, and Mr. Yim Kai Pung. Details of each director are disclosed on page 18 of this Annual Report.

The Board is responsible for establishing the strategic direction of the Group; setting objectives and business development plans; monitoring the performance of the senior management; and assuming responsibility for corporate governance. The management is responsible for implementing the strategies and plans established by the Board; and submitting reports on the Company's operations to the Board on a regular basis to ensure effective discharge of the Board's responsibilities.

While the Board retains at all times full responsibility for guiding and monitoring the Company, certain responsibilities of the Board are delegated as follows:

(a) Various committees, including audit committee, finance and investment committee, remuneration committee, and nomination committee, have been established by the Board to administer certain specified functions of the Company's affairs. The composition and duties of the committees are set out in their terms of reference, which are posted on the websites of the Stock Exchange and the Company.

(b) The day-to-day management, administration, and operation of the Group are delegated to the management.

The Board has established schedule of matters specifically reserved to the Board for its decision and those reserved for the management. The Board reviews this schedule on a periodic basis to ensure that it remains appropriate to the needs of the Company.

BOARD OF DIRECTORS *(continued)*

The Board has established procedure to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances at the Company's expenses.

The Board held seven meetings during the year ended 31 December 2015. Agenda of Board meetings are presented to the Directors for comments and approval. The Board is provided with adequate, timely and reliable information about the Group's business and developments before each Board meeting at which the Directors actively participate and hold informed discussions. All Directors are asked to review and comment on the Board minutes within a reasonable time after the meetings to maintain accurate records of Board discussions and decisions. Details of individual attendance of directors are set out below:

Name of directors	Attended/Eligible to attend
Executive directors	
Ms. Tsui Kam Ling *(Chairman)*	7/7
Mr. Wong Chi Ho (appointed on 24 March 2015)	5/5
Mr. Wong Chi Kit (appointed on 24 March 2015)	5/5
Mr. Wong Yiu Chu (re-designated on 24 March 2015)	2/2
Mr. Tan Keng Boon	7/7
Non-executive director	
Mr. Wong Yiu Chu (deceased on 30 March 2015)	0/0
Independent non-executive directors	
Mr. Kaung Cheng Xi Dawn (appointed on 24 March 2015)	5/5
Mr. Lo Kar Chun, SBS, JP	6/7
Mr. Wong Yick Man Francis (retired on 29 April 2015)	2/2
Mr. Yim Kai Pung	7/7

During the year ended 31 December 2015, the Board at all times exceeded the minimum requirements of the GEM Listing Rules and the Listing Rule relating to the appointment of at least three independent non-executive directors, and complied with the requirement that these should include one such director with appropriate professional qualifications or accounting or related financial management expertise.

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive director. The Company considers that all of its independent non-executive directors are independent.

Ms. Tsui Kam Ling was the spouse of the late Mr. Wong Yiu Chu and the mother of Mr. Wong Chi Ho and Mr. Wong Chi Kit. Save as disclosed herein, there is no relationship (including financial, business, family or other material/relevant relationships) among members of the Board.



BOARD OF DIRECTORS *(continued)*

All directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. All directors have been updated on the latest developments regarding the GEM Listing Rules, the Listing Rules and other applicable regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices. Continuing briefings and professional development to directors will be arranged whenever necessary.

All directors have complied with the Code and the CG Code during the year ended 31 December 2015 through participating in continuous professional development in the following manner:

Name of directors	Reading materials/ attending seminars in relation to corporate governance and regulatory requirements	Attending seminars/ courses/conferences to develop professional skills and knowledge
Executive directors		
Ms. Tsui Kam Ling	✓	–
Mr. Wong Chi Ho	✓	–
Mr. Wong Chi Kit	✓	–
Mr. Tan Keng Boon	✓	–
Independent non-executive directors		
Mr. Kaung Cheng Xi Dawn	✓	–
Mr. Lo Kar Chun, SBS, JP	✓	–
Mr. Yim Kai Pung	✓	✓

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

On 24 March 2015, Ms. Tsui Kam Ling was appointed as the Chairman of the Board and Mr. Wong Chi Ho and Mr. Wong Chi Kit were appointed as Co-Chief Executive Officer of the Group. As such, the roles of chairman and chief executive officer were separated with effect from 24 March 2015 and the Company has complied with the Code Provision A.2 of the Code from the same date. Ms. Tsui is mainly responsible for providing leadership and directions to the Board. Mr. Wong Chi Ho and Mr. Wong Chi Kit are responsible for overseeing the management of the Group's business with the assistance of the Group's senior management team.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Kaung Cheng Xi Dawn was appointed as a new independent non-executive director on 24 March 2015 for a term of two years commencing from 24 March 2015 to 23 March 2017.

The term of appointment of Mr. Lo Kar Chun, SBS, JP, as the independent non-executive directors is two years commencing from 17 March 2014 to 16 March 2016. The Company has renewed the appointment letter with Mr. Lo with a term of two years commencing on 17 March 2016.

The term of appointment of Mr. Yim Kai Pung as the independent non-executive directors is two years commencing from 10 June 2014 to 9 June 2016.

Board Diversity Policy

The Board has adopted a board diversity policy (the "Policy") which sets out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board.

Pursuant to the Policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills knowledge, and length of service.

The Board will consider to set measurable objectives to implement the Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives. At present, the Board has not set any measurable objectives.

The Nomination Committee will review the Policy from time to time to ensure its continued effectiveness.

BOARD COMMITTEES

(i) Audit Committee

The Company has established an audit committee with written terms of reference in compliance with the GEM Listing Rules and adopted revised written terms of reference in compliance with the Listing Rules on 29 September 2015. The audit committee is primarily responsible for making recommendations to the Board on the appointment, reappointment, and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal; to review the Company's financial controls, internal controls, and risk management systems; and to review the financial statements of the Company. Other duties of the audit committee are set out in its terms of reference, which are posted on the websites of the Stock Exchange and the Company.

The audit committee currently comprises 3 members, namely Mr. Yim Kai Pung (being the chairman of the audit committee), Ms. Kaung Cheng Xi Dawn and Mr. Lo Kar Chun, SBS, JP.

BOARD COMMITTEES *(continued)*

(i) Audit Committee *(continued)*

The audit committee held four meetings during the year. Out of these four meetings, the audit committee met twice with the external auditor. Details of individual attendance of its members are set out below:

Name of directors	Attended/Eligible to attend
Independent non-executive directors	
Mr. Yim Kai Pung *(Chairman)*	4/4
Ms. Kaung Cheng Xi Dawn (appointed on 24 March 2015)	3/3
Mr. Lo Kar Chun, SBS, JP	4/4
Mr. Wong Yick Man Francis (retired on 29 April 2015)	1/1

Set out below is the summary of work performed by the audit committee during the year ended 31 December 2015:

(1) to consider the appointment of the external auditors and any question of resignation or dismissal, and to approve the remuneration and terms of engagement of the external auditor;

(2) to monitor integrity of the Company's financial statements and annual report and accounts, interim report, and quarterly reports, and to review significant financial reporting judgments contained in them;

(3) to review the Company's financial controls, internal controls, and risk management systems; and

(4) to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system.

The audit committee met with the external auditor to review the Group's audited results for the year ended 31 December 2015.

BOARD COMMITTEES *(continued)*

(ii) Remuneration Committee

The remuneration committee makes recommendations to the Board on the Company's policy and structure for all directors and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy. The remuneration of directors is determined according to their expertise, knowledge, and contributions to the Group with reference to the Group's profitability and the prevailing market conditions. Details of the remuneration payable to the directors during the year are set out in note 8 to the financial statements. The remuneration payable to the five members of the senior management during the year falls within the following bands:

Nil to HK$1,000,000	5
HK$1,000,001 to HK$1,500,000	0
	5

The remuneration committee currently comprises 3 members, namely Mr. Lo Kar Chun, SBS, JP (being the chairman of the remuneration committee), Mr. Wong Chi Kit and Mr. Yim Kai Pung.

The remuneration committee held two meetings during the year to determine the specific remuneration packages of all executive directors and senior management. Details of individual attendance of its members are set out below:

Name of directors	Attended/Eligible to attend
Independent non-executive directors	
Mr. Lo Kar Chun, SBS, JP *(Chairman)*	2/2
Mr. Yim Kai Pung	2/2
Executive directors	
Mr. Wong Chi Kit (appointed on 24 March 2015)	0/0
Mr. Wong Yiu Chu (re-designated as non-executive director on 24 March 2015 and deceased on 30 March 2015)	2/2

BOARD COMMITTEES *(continued)*

(iii) Nomination Committee

The nomination committee reviews the structure, size, board diversity, and composition of the Board, and makes recommendations on any proposed changes to the Board to complement the Company's corporate strategy; identifies individuals suitably qualified to become board members and selects or makes recommendations to the Board on the selection of individuals nominated for directorships; assesses the independence of independent non-executive directors; and makes recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors.

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

The nomination committee currently comprises 5 members, namely Ms. Tsui Kam Ling (being the chairman of the nomination committee), Ms. Kaung Cheng Xi Dawn, Mr. Lo Kar Chun, SBS, JP, Mr. Wong Chi Ho and Mr. Yim Kai Pung.

During the year, the nomination committee held one meeting to review the structure, size, board diversity, and composition of the Board, assess the independence of independent non-executive directors, review the re-election of the retiring directors at the annual general meeting, and consider and recommend the appointment of Mr. Wong Chi Ho and Mr. Wong Chi Kit as the new executive directors and Ms. Kaung Cheng Xi Dawn as the new independent non-executive director. Details of individual attendance of its members are set out below:

Name of directors	Attended/Eligible to attend
Executive directors	
Ms. Tsui Kam Ling *(Chairman)*	1/1
Mr. Wong Chi Ho (appointed on 24 March 2015)	0/0
Mr. Wong Yiu Chu (re-designated as non-executive director on 24 March 2015 and deceased on 30 March 2015)	1/1
Independent non-executive directors	
Ms. Kaung Cheng Xi Dawn (appointed on 24 March 2015)	0/0
Mr. Lo Kar Chun, SBS, JP	1/1
Mr. Wong Yick Man Francis (retired on 29 April 2015)	1/1
Mr. Yim Kai Pung	1/1

BOARD COMMITTEES *(continued)*

(iv) Finance and Investment Committee

The finance and investment committee provide executive inputs, supervision, technical/legal oversight, and regulatory compliance of the investment functions of the Company; to assist the Board in evaluating investment, acquisition, joint venture, and divestiture transaction in which the Company is engaged as part of its business strategy from time to time; and to perform such duties and responsibilities as are enumerated in and consistent with this charter or as delegated by the Board.

The finance and investment committee comprises 4 members, namely Mr. Wong Chi Ho (being the chairman of the finance and investment committee), Ms. Tsui Kam Ling, Ms. Lai Yuen Yee, and Ms. Suen Yu May Sammi.

During the year ended 31 December 2015, the finance and investment committee held one meeting with the presence of all the existing member of the finance and investment committee to review the operation of joint venture company in the Philippines and the status of investment deposit paid against Zigong Yandou Smart Card Information Technology Company Limited, details of the deposit paid are set out in note 27(a) to the financial statements.

(v) Corporate Governance Function

No corporate governance committee has been established. The Board is responsible for performing the corporate governance duties which include developing and reviewing the Company's policies and practices on corporate governance; reviewing and monitoring the training and continuous professional development of directors and senior management; reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements; developing, reviewing, and monitoring the code of conduct applicable to employees and directors; and reviewing the Company's compliance with the Code and the CG Code and disclosure in the Corporate Governance Report.

The Board has reviewed the Company's policies and practices on corporate governance to make sure that the Company has complied with the code provisions of the Code for the period 1 January 2015 to 28 September 2015 and has complied with the CG Code for the period 29 September 2015 to 31 December 2015 and to explain any deviation from the Code and the CG Code in this Corporate Governance Report. The Board has also reviewed and monitored the training and continuous professional development of directors and senior management.

AUDITOR'S REMUNERATION

KPMG was first appointed as the auditors of the Group in 2015 after the resignation of previous auditors, BDO Limited. For the year ended 31 December 2015, the fee payable to KPMG in respect of audit services amounted to HK$850,000 and there is no fee payable in respect of non-audit services. For the year ended 31 December 2015, the fee payable to BDO Limited in respect of non-audit services amounted to HK$71,000 and there is no fee payable in respect of audit services.

ACCOUNTABILITY AND AUDIT

The directors acknowledged that it is their responsibility for preparing the financial statements. A statement by the auditor about their reporting responsibilities is set out on pages 47 to 48 of this Annual Report. There are no material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

INTERNAL CONTROL

The Board is responsible for overseeing the system of internal control of the Group and for reviewing its effectiveness. To facilitate the effectiveness and efficiency of operations and to ensure compliance with relevant laws and regulations, the Group emphasises on the importance of a sound internal control system which is also indispensable for mitigating the Group's risk exposures. A sound and effective internal control system is designed for (i) safeguarding the interests of shareholders; (ii) safeguarding assets of the Group against misappropriation; (iii) ensuring proper maintenance of accounting records for the provision of reliable financial information; and (iv) ensuring compliance with the relevant laws, regulations, and internal policies. Such system of internal control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage and eliminate risks of failure in operational systems and fulfillment of the business objectives.

During the year, the Board, through the audit committee, has assessed the effectiveness of the internal control system of the Group including financial, operational and compliance controls and risk management functions and has considered the adequacy of resources, staff qualifications and experience, training programmes, and budget of the Group's accounting and financial reporting function. The Board is satisfied that, the present system of internal control is effective. In order to comply with the CG Code effective from 1 January 2016, the Company has set up its own internal audit department to perform an internal audit function in March 2016.

COMPANY SECRETARY

The Company engages an external service provider to provide secretarial service and has appointed Ms. Lee Ka Man as its Company Secretary. Ms. Lee has confirmed that for the year under review, she has taken no less than 15 hours of relevant professional training. Ms. Lee is not an employee of the Group and Ms. Suen Yu May, Sammi, our Finance Controller, is the person whom Ms. Lee can contact for the purpose of code provision F.1.1 of the Code and F.1.1 of the CG Code.

SHAREHOLDERS' RIGHTS

Pursuant to Article 12.3 of the Articles of Association of the Company, general meetings shall be convened on the written requisition of any two or more members of the Company deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. General meetings may also be convened on the written requisition of any one member of the Company which is a recognized clearing house (or its nominee) deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

However, there is no provision under the Companies Law (2012 Revision) of the Cayman Islands allowing shareholders to propose new resolutions at the general meetings.

Enquiries may be put to the Board by sending written enquiries to the Company's principal place of business in Hong Kong or the designated email addresses of the Company.

Detailed procedures for shareholders to propose a person for election as director are available on the Company's website.



COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The objective of shareholder communication is to provide our shareholders with detailed information about the Company so that they can exercise their rights as shareholders in an informed manner.

The Company uses a range of communication tools to ensure its shareholders are kept well informed of key business imperatives. These include annual general meeting, annual report, interim report, quarterly reports, various notices, announcements, and circulars.

The terms of reference of the audit committee, the remuneration committee, and the nomination committee are available on the websites of the Stock Exchange and the Company.

At the 2015 annual general meeting, a separate resolution was proposed by the chairman in respect of each separate issue, including re-election of directors and voted by way of poll. The Company announced the results of the poll in the manner prescribed under the GEM Listing Rules. The chairman of the Board, audit committee, remuneration committee and nomination committee or their duly appointed delegate attended the 2015 annual general meeting to answer questions of shareholders. No other general meeting was held during 2015. Details of individual attendance of directors at the 2015 annual general meeting is set out below:

Name of directors	Attended/Eligible to attend
Executive directors	
Ms. Tsui Kam Ling *(Chairman)*	1/1
Mr. Wong Chi Ho (appointed on 24 March 2015)	1/1
Mr. Wong Chi Kit (appointed on 24 March 2015)	1/1
Mr. Wong Yiu Chu (re-designated on 24 March 2015)	0/0
Mr. Tan Keng Boon	1/1
Non-executive director	
Mr. Wong Yiu Chu (re-designated on 24 March 2015 and deceased on 30 March 2015)	0/0
Independent non-executive directors	
Mr. Kaung Cheng Xi Dawn (appointed on 24 March 2015)	1/1
Mr. Lo Kar Chun, SBS, JP	0/1
Mr. Wong Yick Man Francis (retired on 29 April 2015)	0/1
Mr. Yim Kai Pung	1/1

CONSTITUTIONAL DOCUMENTS

In order to be in line with main board Listing Rules due to the transfer of listing from GEM to main board of the Stock Exchange, the Company adopted new Memorandum and Articles of Association of the Company at the annual general meeting of the Company held on 29 April 2015 with effective from 29 September 2015, to replace the existing Memorandum and Articles of Association of the Company. Save for mentioned above, there were no other changes in the constitutional documents of the Company. The new Memorandum Articles of Association of the Company has been published on the HKEx news website at "www.hkexnews.hk", and the Company's website.



ENVIRONMENTAL

The Group is committed to create a business that contributes to global efforts in environmental care and sustainability. The Group's technology offerings also promote environmental sustainability by reducing the waste associated with a wide-range of business activities. The Group's smart card technologies and cloud-based enterprise collaboration solutions help improve business operations, reducing unneeded paper-based communications and processes. Furthermore, cashless transactions facilitated by the Group's electronic payment solutions and in particular its Automatic Fare Collection system solutions are also contributing to global efforts to reduce waste and paper consumption.

The Group is principally engaged in development, sales and distribution of smart card products, both hardware and software, and provision of smart card related services. Resources such as energy, water and raw materials are essential inputs to our business. The Group is committed to use resources wisely and efficiently and reduce waste generation within our operations. Throughout all of our operations, we have been progressively implementing different resource-saving measures, ranging from power-saving program, recycling paper and materials, to the behavioral change of our people. Operations of the Group do not result in significant air and gas emissions, discharges into water and lands and impact on the environment and natural resources.

SOCIAL

Supply Chain Management

For almost a decade, all devices developed by the Group have been compliant with the requirements laid down in the directive restricting the use of certain hazardous substances in electrical and electronic products, commonly referred to as the Restriction of Hazardous Substances ("RoHS") Directive. This directive restricts the use of six hazardous materials in manufacturing various types of electronic and electrical products. It covers all domestically made and imported products in the European Union ("EU"), with a few exemptions given on certain occasions. As such, supply chain management is always one of the key links in the Group's quality control system. The Group exercises a high level of scrutiny over the selection of suppliers. Major suppliers and subcontractors must prove their compliance with RoHS for them to be included into our supplier list. The Group also carries out long-term quality monitoring and regular review over major suppliers and subcontractors. They are subject to assessment and on-sit audits on product quality as well as suitability and quality consistency tests made by our quality department. In case of a significant change in their qualification or serious quality issue, the Group may suspend them from our supplier list.

Product Responsibility

The Group is in the business of providing products that promise utmost security and convenience to our clients and their end customers. As such, the nature of our business requires the highest degree of accuracy, precision and quality in developing our products. To bolster our efforts in quality assurance, we undergo stringent certification programs from unbiased organisations that enforce international, national and industry standards. This is our way of ensuring we deliver only qualified products to the market, and maintaining our outstanding track record in the smart card industry.

A wholly owned subsidiary of the Group got its first ISO certification in 2007, having proven successful in following the requirements set by ISO 9001 standard. Two wholly owned major subsidiaries of the Group comply with ISO 9001 and their certificates are renewed in September 2013 and January 2014 respectively. The Group further improves the level of satisfaction it delivers to customers by carrying out business operations based on the Quality Policy and Quality Procedure Manual. Started from 2007, the Group surveys its high-volume clients annually which included questions in relation to product quality. Customers rated overall satisfaction level with the products of the Group as "good", which has been consistent since 2007.

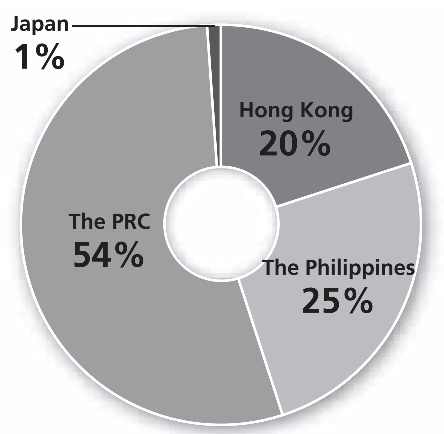
Employment and Labour Standards

As of 31 December 2015, the Group has 291 full-time employees in offices located in Hong Kong, Guangzhou, Shenzhen, Zhuhai, Manila and Tokyo. The Group Strictly complies with the requirements of the Labour Law or Regulations under local jurisdiction:

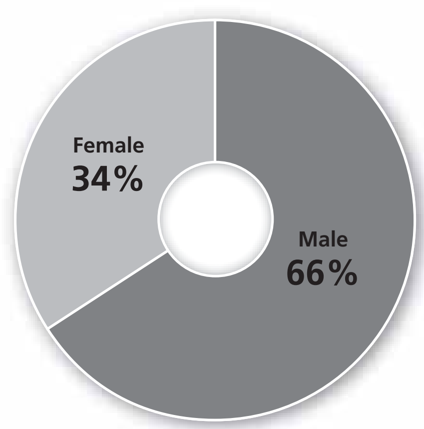
1. The Group prohibits the employment of child, forced or compulsory labour in any of our operations;
2. Wages, overtime payments and related benefits are made in accordance with minimum wage or above (if any);
3. Holidays and statutory paid leaves are compliant respective Labour Law or Regulations; and
4. The Group treats all its employees equally that their employment, remuneration and promotion will not be affected by their social identities such as ethnicity, race, nationality, gender, religion, age, sexual orientation, political faction and marital status.

Employee Distribution

By Office



By Gender



Health, Development and Training

The Group ample resources to staff training and development with the aim of sustaining a competent and professional staff force that will contribute to the success of the Group. In 2015, more than 360 training sessions were completed by our employees on different aspects such as technology, industry information, internal system and workflows, products, soft skills, safety and staff induction.

Moreover, a number of staff activities were organised in various offices, including annual dinner, Christmas party, sports competition, team-building activity, birthday party and so on, to show appreciation to employees for their contribution and to enhance their sense of belonging.

Basketball Competition in Zhuhai

Team Building Activity in the Philippines

Anti-corruption

The Code of Conduct included in our Human Resources Manual allows our people to understand explicitly on several areas, which include the provisions of anti-bribery and corruption. The Group definitely has zero tolerance on bribery and corruption behavior.

Community Investment

Charity and Social Responsibility

To celebrate the successful listing on the main board of the Stock Exchange on 29 September 2015, the Group donated HK$500,000 to The Community Chest of Hong Kong for drawing its stock code and to help people in need. The Group also called for donations from employees in Hong Kong to support the Orbis World Sight Day Campaign to help subsidise surgeries for blind people.

Outreach Program in Manila

Apart from donation, employees in Manila organised outreach program to extend help to cancer patients, which raised the awareness of employees about people with fatal disease and allowed employees to share their blessings with them.

The Cheque Presentation Ceremony to The Community Chest of Hong Kong

Supporting Hong Kong's Technology Research and Development

The Group with a strong focus on technology research and development with more than 60% of the Group's staff members holding at least one technical degree or diploma, a similar percentage is found even at headquarters in Hong Kong. The Group believes that as a technology-intensive, home-grown company in the technology research and development sector, it should continue to hire and groom technical staff in Hong Kong. These openings vary in terms of emphasis on technical knowledge, but with regular and on-the-job trainings as well as interactions with other technical staff members, new hires may have a challenging yet satisfying career path in technology research and development.

Awards on Research and Development

In 2015, ACR35 NFC Mobile Smart Card Reader, a product of the Group, won the Best Mobile Payment Product Experience Prize in Golden Pine Awards 2014 and the Innovative Product Award of 2015 Golden Ant Award. ACR35 NFC MobileMate Card Reader is a new smart card reader that can be used with mobile devices. By combining two card technologies (magnetic stripe and NFC tag), it provides users the flexibility to use magnetic stripe cards and smart cards, without additional hardware costs. These awards are recognitions of the Group's innovation and effort in research and development in the smart card industry.

REPORT OF THE DIRECTORS

The directors are pleased to submit their annual report together with the audited financial statements for the year ended 31 December 2015.

PRINCIPAL PLACE OF BUSINESS

Advanced Card Systems Holdings Limited is a company incorporated and domiciled in Cayman Islands and has its registered office at P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and its principal place of business at Units 2010–2013, 20th Floor, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Hong Kong.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 15 to the financial statements.

The segment analysis of locations of the operations of the Company and its subsidiaries during the year are set out in note 4(b) to the financial statements.

BUSINESS REVIEW

Business review as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group, an indication of likely future developments in the Group's business and relationships with its key stakeholders, can be found in the Management Discussion and Analysis set out on pages 9 to 15 of this Annual Report. In addition, discussion on the Group's environmental policies can be found on page 35 of this Annual Report. The compliance with relevants law and regulations which have a significant impact on the Group can be found on page 46 of this Annual Report.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	17%	–
Five largest customers in aggregate	44%	–
The largest supplier	–	13%
Five largest suppliers in aggregate	–	38%

At no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to HK$500,000 (2014: HK$nil).

RESULTS AND APPROPRIATIONS

The profit of the Group for the year ended 31 December 2015 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 49 to 117.

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

CLOSURE OF REGISTER OF MEMBERS

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

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

(ii) Entitlement to the Proposed Final Dividend

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

RESERVES

Profit for the year of HK$20,304,000 (2014: HK$23,724,000) has been transferred to reserves. Details of the movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of change in equity on page 52 and note 25(a) to the financial statements.

PLANT AND EQUIPMENT

Details of the movements in plant and equipment of the Group are set out in note 12 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 25(c) to the financial statements.

DIRECTORS

The directors who held the office during the year and up to the date of this report were:

Executive directors
Ms. Tsui Kam Ling *(Chairman)*
Mr. Wong Chi Ho (appointed on 24 March 2015)
Mr. Wong Chi Kit (appointed on 24 March 2015)
Mr. Wong Yiu Chu (re-designated on 24 March 2015)
Mr. Tan Keng Boon

Non-executive director
Mr. Wong Yiu Chu (re-designated on 24 March 2015 and deceased on 30 March 2015)

Independent non-executive directors
Ms. Kaung Cheng Xi Dawn (appointed on 24 March 2015)
Mr. Lo Kar Chun, SBS, JP
Mr. Wong Yick Man Francis (retired on 29 April 2015)
Mr. Yim Kai Pung

On 29 April 2015, Mr. Wong Yick Man Francis retired as an independent non-executive director at the annual general meeting due to his wish to devote more time to voluntary social services.



In accordance with Article 16.18 of the Company's Articles of Association, Ms. Tsui Kam Ling, Mr. Tan Keng Boon and Mr. Lo Kar Chun, SBS, JP, will retire by rotation at the forthcoming annual general meeting. Ms. Tsui Kam Ling and Mr. Lo Kar Chun, SBS, JP, will, being eligible, offer themselves for re-election. Mr. Tan Keng Boon who does not offer himself for re-election due to his wish of devoting more time with his family and will retire at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

The executive directors, Mr. Tan Keng Boon and Ms. Tsui Kam Ling, have entered into service agreements with the Company which were renewed for further two years from 27 October 2014 to 26 October 2016. Mr. Wong Chi Ho and Mr. Wong Chi Kit were appointed by the board of directors as executive directors and have entered into service agreements with the Company for two years commencing from 24 March 2015 to 23 March 2017. Under the agreements, either party may terminate the agreement at any time by giving to the other not less than three months' prior written notice.

Ms. Kaung Cheng Xi Dawn, was appointed by the board of directors as the independent non-executive director for a term of two years commencing from 24 March 2015 to 23 March 2017.

Mr. Lo Kar Chun, SBS, JP, was appointed by the board of directors as the independent non-executive directors for a term of two years commencing from 17 March 2016 to 16 March 2018.

Mr. Yim Kai Pung, was appointed by the board of directors as the independent non-executive directors for a term of two years commencing from 10 June 2014 to 9 June 2016.

Save as disclosed above, none of the directors has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2015, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code or as otherwise notified to the Company were as follows:

	Long position in ordinary shares of HK$0.10 each					
Name of directors	Personal interests (Note 1)	Family interests	Corporate interests	Other interests	Total number of shares held	Percentage of the Company's issued share capital as at 31 December 2015
Executive Directors						
Ms. Tsui Kam Ling	113,612,122	113,612,122	–	–	113,612,122	40.00%
Mr. Wong Chi Ho	26,263,252	26,263,252	–	–	26,263,252	9.25%
Mr. Wong Chi Kit (Note 2)	26,203,200	8,144,000	–	–	34,347,200	12.09%
Mr. Tan Keng Boon	157,893	–	–	–	157,893	0.06%
Independent Non-executive Director						
Mr. Lo Kar Chun, SBS, JP	400,000	–	–	–	400,000	0.14%

Notes:

1 The shares are registered under the names of the directors who are the beneficial owners.

2 26,203,200 shares are held by Mr. Wong Chi Kit personally and 8,144,000 shares are held by his wife, Ms. Chan Angelica Sheung Ying, personally. Mr. Wong Chi Kit is taken to be interested in the shares held by Ms. Chan Angelica Sheung Ying under the SFO.

Save as disclosed above, to the best knowledge of the directors of the Company, as at 31 December 2015, none of the directors or their associates had any personal, family, corporate or other interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code or as otherwise notified to the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them, or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2015, so far as is known to the directors or chief executive of the Company, the following shareholders (excluding directors and chief executive of the Company) had interests and short positions of 5% or more in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

	Long position in ordinary shares of HK$0.10 each					
Name of shareholders	Personal interests	Family interests	Corporate interests	Other interests	Total number of shares held	Percentage of the Company's issued share capital as at 31 December 2015
Ms. Chan Angelica Sheung Ying (Note 1)	8,144,000	26,203,200	–	–	34,347,200	12.09%

Note:

1 8,144,200 shares are held by Ms. Chan Angelica Sheung Ying personally and 26,203,200 shares are held by her husband, Mr. Wong Chi Kit, personally, who are also the beneficial owners. Ms. Chan Angelica Sheung Ying is taken to be interested in the shares held by Mr. Wong Chi Kit under the SFO.

Save as disclosed above, as at 31 December 2015 and to the best knowledge of the directors and chief executive of the Company, there was no person had an interest or short position in the shares or underlying shares of the Company as recorded in the register to be kept under Section 336 of the SFO.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENT OR CONTRACTS

No transactions, arrangements or contracts of significance in relation to the Group's business to which the Company, its subsidiaries, its fellow subsidiaries or its parent company was a party and in which a director of the Company on his connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

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

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PERMITTED INDEMNITY PROVISION

The Articles of Association of the Company provides that every director shall be indemnified out of the assets of the Company against all losses or liability incurred or substained by him as a director in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted.

The Company has taken out insurance against the liabilities and costs associated with defending any proceedings which may be brought against the directors of the Company and its subsidiaries.

BANK LOANS AND OTHER BORROWINGS

The Company and its subsidiaries obtained banking facilities during the year. The bank borrowings as at the year end amounted to HK$34.5 million and the details are set out in note 22 to the financial statements. Save as disclosed herein, there is no other outstanding balance of bank loans and other borrowings as at the year end.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group is set out on page 118 of this Annual Report.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into during the year or subsisted at the end of the year.

CONNECTED TRANSACTIONS

On 19 November 2015, a wholly owned subsidiary of the Company, as a borrower, entered into a facility agreement (the "Facility Agreement") with Ms. TSUI Kam Ling (a Director and substantial Shareholder), as a lender, for a revolving loan facility amounted to HK$20 million. The Facility Agreement was conducted on normal commercial terms or better that such financial assistance received by the Group was exempted from shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS *(continued)*

Save as disclosed above, the other material related part transactions entered into by the Company during the year ended 31 December 2015 as disclosed in note 28 to the financial statements did not fall under the definition of "connected transaction" or "continuing connected transaction" (as the case may be) in Chapter 14A of the Listing rules.

REMUNERATION POLICIES

Remuneration policies and packages for the Group's employees are based on individual qualifications, performance, experience and conditions prevailing in the industry. In addition, various training sessions are offered to employees to enhance their product and market knowledge. The remuneration of directors is determined according to their expertise, knowledge, and contributions to the Group with reference to the Group's profitability and the prevailing market conditions.

EMPLOYEE RETIREMENT PLANS

Particulars of employee retirement plans of the Group are set out in note 23 to the financial statements.

PUBLIC FLOAT

Based on the information available to the Company and within the knowledge and belief of the directors of the Company, the Company has maintained the prescribed amount of public float as required under the GEM Listing Rules during the period 1 January 2015 to 28 September 2015 and as required under the Listing Rules started from 29 September 2015 and up to the date of this report.

COMPLIANCE WITH LAWS AND REGULATIONS

During the year, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

CHANGE OF AUDITOR

The consolidated financial statements for the year ended 31 December 2014 was audited by BDO Limited who resigned as auditors on 23 December 2015, KPMG has been appointed, as the auditor of the Company with effect from 23 December 2015. Save as disclosed above, there were no other changes in auditors of the Company during the past three years.

The consolidated financial statements for the year ended 31 December 2015 have been audited by KPMG, who will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forth coming Annual General Meeting.

By order of the Board

TSUI Kam Ling
Chairman

Hong Kong, 22 March 2016

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF ADVANCED CARD SYSTEMS HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Advanced Card Systems Holdings Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 49 to 117, which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015 and of the Group's financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

22 March 2016



CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2015

(Expressed in Hong Kong dollars)

	Note	2015 *$'000*	2014 *$'000*
Revenue	4	**234,526**	246,323
Cost of sales		**(118,287)**	(124,466)
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		**(41,688)**	(37,246)
Profit from operations		**24,393**	27,396
Finance costs	6(a)	**(784)**	(612)
Share of results of a joint venture		**(1,358)**	(205)
Profit before taxation	6	**22,251**	26,579
Income tax	7(a)	**(1,947)**	(2,855)
Profit for the year attributable to the equity shareholders of the Company		**20,304**	23,724
Earnings per share	11		
Basic		**7.148 cents**	8.352 cents
Diluted		**7.148 cents**	8.352 cents

The notes on pages 54 to 117 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 25(b).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

	Note	**2015**	2014
		$'000	*$'000*
Profit for the year		**20,304**	23,724
Other comprehensive income for the year (after tax)	10		
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit obligations		**(32)**	(344)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**(828)**	(559)
Total comprehensive income for the year		**19,444**	22,821
Attributable to:			
Equity shareholders of the Company		**19,444**	22,821

The notes on pages 54 to 117 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

(Expressed in Hong Kong dollars)

	Note	2015 $'000	2014 $'000
Non-current assets			
Plant and equipment	12	6,295	7,763
Intangible assets	13	47,248	42,875
Goodwill	14	1,972	1,972
Interest in a joint venture	16	2,008	2,512
Prepayment for available-for-sale securities		377	377
Deferred tax assets	24(b)	489	915
		58,389	56,414
Current assets			
Inventories	17	34,548	40,118
Trade and other receivables	18	78,480	54,129
Held-to-maturity financial assets	19	730	69
Current tax recoverable	24(a)	2,517	986
Cash and cash equivalents	20(a)	38,941	35,671
		155,216	130,973
Current liabilities			
Trade and other payables	21	35,384	30,819
Bank loans and overdrafts	22	43,591	35,336
Current tax payable	24(a)	1,142	1,758
		80,117	67,913
Net current assets		75,099	63,060
Total assets less current liabilities		133,488	119,474
Non-current liabilities			
Defined benefit obligations	23	814	737
Deferred tax liabilities	24(b)	1,824	1,650
		2,638	2,387
NET ASSETS		130,850	117,087
CAPITAL AND RESERVES			
Share capital	25(c)	28,406	28,406
Reserves		102,444	88,681
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		130,850	117,087

Approved and authorised for issue by the Board of Directors on 22 March 2016.

TSUI Kam Ling	Wong Chi Ho
Directors	*Directors*

The notes on pages 54 to 117 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

(Expressed in Hong Kong dollars)

	Note	Share capital *$'000* (Note 25(c))	Share premium *$'000* (Note 25(d)(i))	Merger reserve *$'000* (Note 25(d)(ii))	Surplus reserve *$'000* (Note 25(d)(iii))	Exchange reserve *$'000* (Note 25(d)(iv))	Retained profits *$'000*	Total equity *$'000*
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

The notes on pages 54 to 117 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

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

	Note	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

The notes on pages 54 to 117 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)
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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Basis of preparation of the financial statements *(continued)*

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Changes in accounting policies *(continued)*

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)).

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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)).

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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)).

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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)).

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Intangible assets (other than goodwill) *(continued)*

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Impairment of assets *(continued)*

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

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Impairment of assets *(continued)*

(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).

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Impairment of assets *(continued)*

(ii) Impairment of other assets (continued)

– 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Employee benefits *(continued)*

(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)).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)
31 December 2015

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Income tax *(continued)*

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(w) Related parties *(continued)*

(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.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

(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
	234,526	246,323

4 REVENUE AND SEGMENT REPORTING *(continued)*

(a) Revenue *(continued)*

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

* 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
	$'000	*$'000*
Revenue from external customers and reportable segment revenue	**234,526**	246,323

4 REVENUE AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

(ii) Reconciliations of reportable segment profit, assets and liabilities

	2015	2014
	$'000	*$'000*
Profit		
Reportable segment profit from operations	27,801	28,202
Share of results of a joint venture	(1,358)	(205)
Unallocated corporate expenses	(4,192)	(1,418)
Consolidated profit before taxation	22,251	26,579
Assets		
Reportable segment assets	208,399	182,650
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
Consolidated total assets	213,605	187,387
Liabilities		
Reportable segment liabilities	79,454	66,609
Deferred tax liabilities	1,824	1,650
Current tax payable	1,142	1,758
Unallocated corporate liabilities	335	283
Consolidated total liabilities	82,755	70,300

(iii) Geographic information

The following table sets out information about the geographic location of (i) the Group's revenue from external customers and (ii) the Group's plant and equipment, intangible assets, goodwill, 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.

4 REVENUE AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

(iii) Geographic information (continued)

	Revenue from external customers		Specified non-current assets	
	2015	2014	**2015**	2014
	$'000	*$'000*	***$'000***	*$'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	2014
	$'000	*$'000*
Income from benefits under a life insurance policy (note)	**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
	$'000	*$'000*
(a) Finance costs:		
Interest on bank loans and other borrowings	**1,360**	1,339
Less: Interest expense capitalised into development costs*	**(576)**	(727)
	784	612

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

	2015	2014
	$'000	*$'000*
(b) Staff costs:		
Contributions to defined contribution retirement plans	**3,913**	3,194
Net expenses recognised in respect of defined benefit retirement plans (note 23)	**213**	114
Total retirement costs	**4,126**	3,308
Salaries, wages and other benefits	**64,903**	64,857
	69,029	68,165
Less: Amount capitalised into development costs	**(12,922)**	(12,966)
	56,107	55,199

6 PROFIT BEFORE TAXATION *(continued)*

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

	2015	2014
	$'000	*$'000*
(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))	116,190	122,705

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	2015	2014
	$'000	*$'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

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(continued)*

(a) Taxation in the consolidated statement of profit or loss represents: *(continued)*

Notes:

(i) The provision for Hong Kong Profits Tax for 2015 is calculated at 16.5% (2014: 16.5%) of the estimated assessable profits for the year.

(ii) The provision for Philippines Income Tax for 2015 is calculated at 30% (2014: 30%) of the estimated taxable income or 2% (2014: 2%) on gross income incurred for the year, whichever is higher, in accordance with the National Internal Revenue Code of the Republic of the Philippines.

(iii) In accordance with the relevant PRC corporate income tax laws, regulations and implementation guidance notes, the statutory income tax rate applicable to the Company's subsidiaries in the PRC is 25%, except for the following companies:

(a) Logyi Limited ("Logyi")

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

(b) ACS Technologies (Shenzhen) Limited ("ACS Shenzhen")

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

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

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(continued)*

(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				
	Directors' fees *$'000*	Salaries, allowances and benefits in kind *$'000*	Discretionary bonuses *$'000*	Retirement scheme contributions *$'000*	Total *$'000*
Executive directors					
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
Non-executive director					
Mr. Wong Yiu Chu (redesignated on 24 March 2015 and passed away on 30 March 2015)	–	–	–	–	–
Independent non-executive directors					
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

8 DIRECTOR'S EMOLUMENTS *(continued)*

	2014				
	Directors' fees *$'000*	Salaries, allowances and benefits in kind *$'000*	Discretionary bonuses *$'000*	Retirement scheme contributions *$'000*	Total *$'000*
Executive directors					
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
Independent non-executive directors					
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
	382	3,929	–	34	4,345

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	**–**	–
	962	1,738

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS *(continued)*

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

	2015 *Number of individuals*	2014 *Number of individuals*
$Nil to $1,000,000	1	2

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)
	(875)	15	(860)	(1,050)	147	(903)

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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)
31 December 2015

12 PLANT AND EQUIPMENT

	Leasehold improvements	Furniture and fixtures	Computer and office equipment	Mould	Motor vehicles	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'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
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
At 31 December 2014	45,107	178	244	45,529
Net book value:				
At 31 December 2014	38,844	2,325	1,706	42,875
Cost:				
At 1 January 2015	83,951	2,503	1,950	88,404
Capitalised during the year	15,526	–	–	15,526
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
At 31 December 2015	55,415	536	731	56,682
Net book value:				
At 31 December 2015	44,062	1,967	1,219	47,248

13 INTANGIBLE ASSETS *(continued)*

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	2014
	$'000	*$'000*
Cost:		
At 1 January	**1,972**	–
Additions through business combination	**–**	1,946
Exchange adjustments	**–**	26
At 31 December	**1,972**	1,972

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 fulfiled 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.

(Expressed in Hong Kong dollars unless otherwise indicated)

14 GOODWILL *(continued)*

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

	2015	2014
Growth rate	**3–4%**	3–4%
Pre-tax discount rate	**21.0%**	18.8%

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.

			Proportion of ownership interest			
Name of company	Place of incorporation/ establishment and business	Particulars of issued and paid up capital	Group's effective interest %	Held by the Company %	Held by a subsidiary %	Principal activities
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

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15 INVESTMENTS IN SUBSIDIARIES *(continued)*

			Proportion of ownership interest			
Name of company	Place of incorporation/ establishment and business	Particulars of issued and paid up capital	Group's effective interest %	Held by the Company %	Held by a subsidiary %	Principal activities
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	–
	2,008	2,512

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:

				Proportion of ownership interest			
Name of joint venture	Form of business structure	Place of incorporation and business	Particulars of issued and paid-up capital	Group's effective interest %	Held by the Company %	Held by a subsidiary %	Principal activity
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	2,336	5,583
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)	(2,195)	(1,596)

16 INTEREST IN A JOINT VENTURE *(continued)*

	2015	2014
	$'000	*$'000*
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)
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

17 INVENTORIES

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

	2015	2014
	$'000	*$'000*
Raw materials	16,707	21,642
Work in progress	1,111	1,370
Finished goods	16,730	17,106
	34,548	40,118

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

	2015	2014
	$'000	*$'000*
Carrying amounts of inventories sold	114,780	122,048
Write down of inventories	1,410	657
	116,190	122,705

18 TRADE AND OTHER RECEIVABLES

	2015	2014
	$'000	*$'000*
Trade receivables	**73,030**	47,089
Less: Allowance for doubtful debts (note 18(b))	**(630)**	(685)
	72,400	46,404
Prepayments	**1,317**	1,792
Deposits paid	**1,913**	1,510
Amount due from a joint venture	**1,025**	1,189
Other receivables	**1,886**	3,298
Less: Allowance for doubtful debts (note 18(b))	**(61)**	(64)
	78,480	54,129

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

(a) Ageing analysis

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

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

Trade receivables are generally due within 7 days to 3 months from the date of billing. Trade receivables in relation to sales of software and sales under solution business are due according to respective payment terms, which may exceed 3 months. Further details on the Group's credit policy are set out in note 26(a).

18 TRADE AND OTHER RECEIVABLES *(continued)*

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

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

18 TRADE AND OTHER RECEIVABLES *(continued)*

(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	2014
	$'000	*$'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
	30,923	20,665
	72,400	46,404

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	2014
	$'000	*$'000*
Treasury bills, at amortised cost	**730**	69

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	2014
	$'000	*$'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 (note 22)	**(9,136)**	–
Cash and cash equivalents in the consolidated cash flow statement	**29,805**	35,671

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.

20 CASH AND CASH EQUIVALENTS *(continued)*

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

	Notes	2015	2014
		$'000	*$'000*
Profit before taxation		**22,251**	26,579
Adjustments for:			
Depreciation	6(c)	**3,885**	4,369
Amortisation of intangible assets	6(c)	**10,964**	9,735
(Reversal of)/provision of impairment losses on trade and other receivables	6(c)	**(55)**	446
Impairment losses on intangible assets	13	**189**	–
Finance costs	6(a)	**784**	612
Interest income	5	**(67)**	(213)
Net (gain)/loss on disposal of plant and equipment	6(c)	**(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		**28,428**	25,152

21 TRADE AND OTHER PAYABLES

	2015	2014
	$'000	*$'000*
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
	35,384	30,819

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
	$'000	*$'000*
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
	24,171	14,981

22 BANK LOANS AND OVERDRAFTS

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

	2015	2014
	$'000	*$'000*
Bank overdrafts (note 20(a))		
– unsecured	9,136	–
Bank loans		
– secured	34,455	35,336
	43,591	35,336

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
	$'000	*$'000*
Within 1 year or on demand	38,314	26,356
Non-current portion of bank loans repayable on demand	5,277	8,980
	43,591	35,336

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 administrated 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.

23 EMPLOYEE RETIREMENT BENEFITS *(continued)*

(b) Defined benefit retirement plan *(continued)*

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
	$'000	*$'000*
Present value of wholly funded obligations	1,343	1,140
Fair value of plan assets	(529)	(403)
	814	737

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
	$'000	*$'000*
Unit investment trust funds	529	403

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
	$'000	*$'000*
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)
At 31 December	1,343	1,140

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

23 EMPLOYEE RETIREMENT BENEFITS *(continued)*

(b) Defined benefit retirement plan *(continued)*

(iv) Movements in plan assets:

	2015	2014
	$'000	*$'000*
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)
At 31 December	**529**	403

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

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

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.

23 EMPLOYEE RETIREMENT BENEFITS *(continued)*

(b) Defined benefit retirement plan *(continued)*

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

	2015	2014
Discount rate	4.89%	4.46%
Future salary increases	5% per annum	5% per annum

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 in 1%	Decrease in 1%	Increase in 1%	Decrease in 1%
	$'000	*$'000*	*$'000*	*$'000*
Discount rate	(170)	199	(155)	183
Future salary increases	183	(161)	169	(147)

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 *$'000*	2014 *$'000*
Current tax recoverable	**2,517**	986
Current tax payable	**(1,142)**	(1,758)
	1,375	(772)

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

24 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

(b) Deferred tax assets/(liabilities) recognised *(continued)*

	Depreciation allowances in excess of the related depreciation	Employee retirement benefits	Application solutions	Customer relationship	Technical know-how	Tax losses	Others	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'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	(503)	286	(923)	(492)	(305)	399	203	(1,335)

Reconciliation to the statement of financial position

	2015	2014
	$'000	*$'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	**(1,824)**	(1,650)
	(1,335)	(735)

(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.

24 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(continued)

(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

	Note	Share capital	Share premium	Retained profits	Total equity
		$'000	*$'000*	*$'000*	*$'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

25 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(a) Movements in components of equity *(continued)*

	Note	Share capital	Share premium	Retained profits	Total equity
		$'000	*$'000*	*$'000*	*$'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)	**2,841**	5,681

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

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

	2015	2014
	$'000	*$'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)	**5,681**	5,681

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

25 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(c) Share capital

Authorised and issued share capital

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

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.

25 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(d) Nature and purpose of reserves *(continued)*

(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.

25 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(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.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(a) Credit risk *(continued)*

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.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(b) Liquidity risk *(continued)*

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				
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Carrying amount
	$'000	*$'000*	*$'000*	*$'000*	*$'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**
	63,545	**3,453**	**1,965**	**68,963**	**68,101**

	2014 Contractual undiscounted cash outflow				
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Carrying amount
	$'000	*$'000*	*$'000*	*$'000*	*$'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
	53,683	9,139	–	62,822	61,668

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(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 interest rate	**Amount**	Effective interest rate	Amount
	%	***$'000***	%	*$'000*
Variable rate borrowings:				
Bank loans and overdrafts	**2.88%–4.00%**	**34,455**	2.71%–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.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(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)
	57,043	**6,445**	**14,721**	24,841	9,112	1,912

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(d) Currency risk *(continued)*

(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.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(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
	$'000	*$'000*
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.

27 COMMITMENTS *(continued)*

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

	2015	2014
	$'000	*$'000*
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
	$'000	*$'000*
Short-term employee benefits	**7,372**	7,884
Post-employment benefits	**126**	117
	7,498	8,001

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

29 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2015	2014
		$'000	*$'000*
Non-current assets			
Interests in subsidiaries		14,004	14,004
Amounts due from a subsidiary		46,862	–
		60,866	14,004
Current assets			
Other receivables		192	324
Amounts due from a subsidiary		–	46,456
Cash and cash equivalents		283	148
		475	46,928
Current liabilities			
Other payables		335	283
Net current assets		140	46,645
Total assets less current liabilities		61,006	60,649
NET ASSETS		61,006	60,649
CAPITAL AND RESERVES			
Share capital	25(c)	28,406	28,406
Reserves		32,600	32,243
TOTAL EQUITY		61,006	60,649

(Expressed in Hong Kong dollars unless otherwise indicated)

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
Annual Improvements to HKFRSs 2012–2014 Cycle	1 January 2016
Amendments to HKAS 1, *Disclosure initiative*	1 January 2016
Amendments to HKAS 16 and HKAS 38, *Clarification of acceptable methods of depreciation and amortisation*	1 January 2016
HKFRS 9, *Financial instruments*	1 January 2018
HKFRS 15, *Revenue from contracts with customers*	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.



FINANCIAL SUMMARY

31 December 2015

	2015	2014	2013	2012	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
RESULTS					
Revenue	**234,526**	246,323	194,360	160,855	117,488
Cost of sales and services provided	**118,287**	124,466	81,340	74,009	57,043
Gross profit	**116,239**	121,857	113,020	86,846	60,445
Gross profit margin	**50%**	49%	58%	54%	51%
Profit for the year	**20,304**	23,724	23,203	16,874	5,119
Net profit margin	**9%**	10%	12%	10%	4%
ASSETS AND LIABILITIES					
Total assets	**213,605**	187,387	164,654	127,864	108,018
Total liabilities	**82,755**	70,300	64,707	47,790	45,053
Total equity	**130,850**	117,087	99,947	80,074	62,965