Advanced Card Systems Holdings Limited

龍傑智能卡控股有限公司*

(incorporated in the Cayman Islands with limited liability)

Stock Code : 8210




ANNUAL REPORT

2007

*For identification only

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This document, for which the directors of Advanced Card Systems Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquires, confirm that, to the best of their knowledge and belief: (i) the information contained in this document is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this document misleading; and (iii) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

As at the date of this document, the Board comprises 3 executive directors, namely Mr. Wong Yiu Chu, Denny, Mr. Tan Keng Boon and Ms. Tsui Kam Ling, Alice; and 3 independent non-executive directors, Dr. Yip Chak Lam, Peter, Mr. Yu Man Woon and Mr. Wong Yick Man, Francis.

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CORPORATE INFORMATION

DIRECTORS

Executive Directors
Mr. Wong Yiu Chu, Denny *(Chairman)*
Mr. Tan Keng Boon
Ms. Tsui Kam Ling, Alice

Independent Non-executive Directors
Dr. Yip Chak Lam, Peter
Mr. Yu Man Woon
Mr. Wong Yick Man, Francis

AUTHORISED REPRESENTATIVES

Mr. Wong Yiu Chu, Denny
Mr. Tan Keng Boon

COMPANY SECRETARY

Mr. Lee Yip Wah, Peter, *B.A., solicitor*

QUALIFIED ACCOUNTANT

Ms. Wong Mei Ki, Maggie, *FCCA, CPA*

COMPLIANCE OFFICER

Mr. Wong Yiu Chu, Denny

AUDIT COMMITTEE

Mr. Yu Man Woon *(Chairman)*
Dr. Yip Chak Lam, Peter
Mr. Wong Yick Man, Francis

REMUNERATION COMMITTEE

Dr. Yip Chak Lam, Peter *(Chairman)*
Mr. Wong Yiu Chu, Denny
Mr. Yu Man Woon

AUDITORS

Grant Thornton
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

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Ugland House
P.O. Box 309
George Town
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE & PRINCIPAL PLACE OF BUSINESS

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Kowloon Bay
Hong Kong

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited
Fubon Bank (Hong Kong) Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 705, George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
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183 Queen's Road East
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COMPANY'S WEBSITE ADDRESS

www.acs.com.hk

STOCK CODE

8210

CHAIRMAN'S STATEMENT

Advanced Card Systems Holdings Limited and its subsidiaries (the "Group") are pleased to present the Group's annual report for the year ended 31 December 2007.

The sales increased by 37% in 2007 to HK$59.3 million from HK$43.2 million in 2006. Net profit before income tax increased by 68% to HK$6.3 million from HK$3.8 million last year.

The Group has the mission to become a leading provider of smart card and smart card reader technologies in the world market. In the initial years of its business, the Group focused on the business of developing and supplying PC linked readers. It is now Asia Pacific's top supplier and the world's fourth largest supplier of PC linked readers as ranked by Frost & Sullivan, the USA-based independent market research institute.

In 2007, the Group continued to expand its product range by developing and supplying more sophisticated types of products built on its foundation of smart card technologies. These sophisticated products have higher unit values and are expanding the Group's potential of sales growth.

An example of such products is ACR100 device which combines a USB plug-in smart card reader with a flash memory chip, for securing on-line transactions and to store data and programs safely. The Group had successes in penetrating the Italian market for government applications and has confidence to break into the bigger market of China in 2008.

Also, the Group introduced to the market in 2007 the world's first CCID reader (a reader compliant to Microsoft's Integrated Circuit(s) Cards Interface Devices standard) supporting Sony's Felica card and NFC standard (Near Field Communication standard, defined by Sony and NXP) as well as many other types of cantactless cards. The first order came from a leading Hong Kong telecom company and lots of inquiries were got from Japan in which both the Felica card and the NFC technology are very popular.

The Group succeeded in securing customers to use the CryptoMate, a USB key integrating the PKI (public key infrastructure) card chip and a reader chip, to enhance the security of on-line transactions. In particular, on-line banking is getting popular in the world as banks are offering more and more services and they tend to allow their customers to carry out the transactions at home. The Group develops and supplies various types of devices to increase the security of using the Internet. Launched in 2007, CryptoMate is one of such security devices. The Group started in 2007 the development of another security device named APG82 which was a one-time password generator following the CAP (chip authentication program) specification by MasterCard, a credit card company. The Group should be able to get all the needed certifications for compliance to industry standards in the first half year of 2008.

CHAIRMAN'S STATEMENT

In 2007, the Group continued to perfect its desk-top and hand-held readers, built based on a 32-bit microprocessor and Linux operating system. There are two main targets for this range of more sophisticated readers. The first target is the health card market in Germany and then in the other countries in Europe. The Group established a company in Germany in 2007 to address this market. In the second type of application, the reader is to be used as the device to be mounted to the doors and gates for access control. Prototypes of the product were supplied to a US-based global company which is the world's leading provider of physical access control solutions.

In 2007, the Group continued to implement several key business strategies in order to make the best use of its financial resources to compete and grow in the market. It increased its junior to senior people ratio to increase its economy of scale while not incurring like-wise increase of salary expenses. It continued to combine the strengths of the Hong Kong headquarters, Shenzhen office and Manila office by making use of their different skills and at different costs to perform various functions. The Group continued to develop and enhance its WEQ (Web-based EnQuiry) IT system to handle information of its big customer base, to debate on and resolve issues using its "FORUM" program, and to track its product development work from product idea formation to testing, debugging and supporting. The WEQ program is enhancing the productivity of the Group.

The world market of smart cards and related security products which the Group develops and supplies, is growing rapidly. Smart cards are now used extensively in mobile phones, for transportation, as bank credit cards, health cards, national identity cards, etc.

The Group has won a reputation as a world's leading supplier of PC linked readers. By making use of its customer base and by building new and innovative products based on its foundation of smart card technologies and knowledge, the Group is constantly opening up new opportunities in the expanding market.

It has always been the goal of the management of the Group to build a business with long-termed sustainable capability to grow in sales and profitability. The Group is getting closer and closer to this goal.

WONG Yiu Chu, Denny
Chairman

Hong Kong, 19 March 2008

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis should be read along side with the Group's audited financial statements for the year ended 31 December 2007.

FINANCIAL REVIEW

The total sales of the Group increased by 37% in the year ended 31 December 2007 to HK$59.3 million from HK$43.2 million in 2006.

Smart card readers contributed to three quarters of the total sales in 2007 and recorded one-third of growth in 2007 over the figure of last year. Smart cards represented only one quarter of the sales of the Group but the growth was faster at 79% in 2007 compared to 2006. Smart card related services are usually provided to customers which request the Group to develop products customized to their specification and do not represent the Group's main income. This form of revenue fluctuates over the years.

	2007	2006	Change
	HK$'000	*HK$'000*	
Smart cards	**13,668**	7,628	+79%
Smart card readers	**44,520**	33,495	+33%
Smart card related services	**1,138**	2,042	-44%
	59,326	43,165	+37%

The biggest sales revenue was recorded in Europe. China represents the biggest market of Asia Pacific. The Group established an office in China in January 2005. Only in the fourth quarter of 2007, the Group began to have some success in penetrating this market. China has a big market of smart cards and readers but usually has its own standard and product specification. It has taken the Group some years to tackle this market. It is expected that in 2008 and the years ahead, China will bring considerable sales to the Group. In 2007, the Group continued to cultivate the USA market and is beginning to receive more substantial orders in the first quarter of 2008. Thus it is expected that the sales breakdown by region in percentage will change considerably in 2008.

FINANCIAL REVIEW *(continued)*

	2007	2006	Change
	HK$'000	*HK$'000*	
Europe	**30,217**	18,679	+62%
Asia Pacific	**14,867**	16,644	-11%
Middle East and Africa	**8,691**	2,297	+278%
The Americas	**5,551**	5,545	+0%
	59,326	43,165	+37%

The total operating expenses and finance costs amounted to HK$23.7 million in 2007 which is 22% higher than the corresponding figure of HK$19.4 million in 2006. Headcount increased to 83 people at 31 December 2007 compared with the headcount of 70 at 31 December 2006.

Net profit before income tax increased by 68% to HK$6.3 million from the figure of HK$3.8 million last year.

	2007	2006	Change
	HK$'000	*HK$'000*	
Sales	**59,326**	43,165	+37%
Cost of sales	**(29,678)**	(20,092)	+48%
Gross profit	**29,648**	23,073	+28%
Gross profit margin	**50%**	53%	
Other income	**475**	282	+68%
Other net losses	**(92)**	(196)	-53%
Administrative and other operating expenses	**(12,908)**	(12,111)	+7%
Research and development expenses	**(6,773)**	(4,074)	+66%
Selling and distribution costs	**(3,742)**	(3,014)	+24%
Total operating expenses	**(23,423)**	(19,199)	+22%
Operating profit	**6,608**	3,960	+67%
Finance costs	**(320)**	(206)	+55%
Profit before income tax	**6,288**	3,754	+68%
Income tax	**(1,982)**	(1,190)	+67%
Profit for the year	**4,306**	2,564	+68%

DIVIDENDS

The board of directors (the "Board") recommends the payment of a dividend of HK0.4 cents per share of HK$1,127,000 for the year ended 31 December 2007. Subject to the approval by the shareholders at the forthcoming annual general meeting on 28 April 2008, the dividends will be paid on 9 May 2008 to shareholders whose names appear on the register of members of the Company on 28 April 2008.

The declaration, payment and amount of future dividends will be at the discretion of 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 deem relevant.

BUSINESS REVIEW

The Group's mission and key business strategies

The Group has the mission to become a leading provider of smart card and smart card reader technologies in the world market. In the initial years of its business, the Group focused on the business of developing and supplying PC linked readers. It is now Asia Pacific's top supplier and the world's fourth largest supplier of PC linked readers as ranked by Frost & Sullivan, the USA-based independent market research institute. Existing customers of PC linked readers are often potential customers of other types of readers and smart cards. Thus the Group often finds existing channels for its new products.

In 2007, the Group continued to implement several key business strategies in order to make the best use of its financial resources to compete and grow in the market.

For a technology company to succeed, a number of talented people must be assembled to carry out different functions of the company, no matter its size. The Group has aligned such a pool of talents. In order to increase the economy of scale, the Group has the strategy to raise the ratio of junior employees to senior employees. The total headcount of the Group was 70 at the end of 2006 comparing with the figure of 83 at the end of 2007. The total staff costs increased from HK$12.1 million in 2006 to HK$13.4 million in 2007. The rate of increase of headcount is higher than the rate of increase of staff costs even though there were upward adjustments of the salaries of individual employees from 2006 to 2007. The reason is the increase of the ratio of junior staff members to senior staff members.

A second strategy is to make more effective use of human resources by combining the strengths of Hong Kong, Shenzhen and Manila staff teams with (1) Shenzhen staff to do more electronic hardware owing to its proximity to Chinese factories in the Pearl delta, and to serve the Chinese market; (2) Manila staff to do more software and to provide technical support to customers in the world; and (3) Hong Kong to engage in IP (intellectual property) intensive technology development, to do the key sales and marketing work and to carry out other headquarters functions.

BUSINESS REVIEW *(continued)*

The Group's mission and key business strategies *(continued)*

The Group continued to develop and enhance its WEQ (Web-based EnQuiry) IT system to handle information of its big customer base, to debate on and resolve issues using its "FORUM" program, and to track its product development work from product idea formation to testing, debugging and supporting.

In 2007, the Group continued to expand its product range by developing and supplying more sophisticated types of products built on its foundation of smart card technologies. These sophisticated products have higher unit values and are expanding the Group's potential of sales growth.

Main products introduced to the market and business opportunities

The Group developed and supplied a range of its ACR100 device which combines a USB plug-in smart card reader with a flash memory chip, for securing on-line transactions and to store data and programs safely. Tens of thousands of the Group's ACR100 devices were shipped to a customer in Italy in 2007 to be channeled to over a hundred Chamber of Commerce organizations in Italy which provide to their members these devices, named "Business Keys", for them to secure their data and on-line transactions. The project has been very successful and the customer expressed its intention to increase their purchase volumes in 2008. The average price of ACR100 is about three times that of a PC linked reader. Such applications or similar ones are being implemented in pilot runs in other countries, particularly China.

The Group introduced to the market in 2007 the world's first CCID reader (a reader compliant to Microsoft's Integrated Circuit(s) Cards Interface Devices standard) supporting Sony's Felica card and NFC standard (Near Field Communication standard, defined by Sony and NXP) as well as many other types of contactless cards. The Group delivered in the fourth quarter of 2007 the first commercial shipment of ACR122 readers to one of the leading telecom companies based in Hong Kong. These readers will be used together with the telecom company's latest multimedia VOIP (Voice over Internet Protocol) phone and a transportation payment card of Hong Kong. The reader can read the balance and the ten transactions stored in the payment card. Such consumer applications using ACR122 are gradually being accepted as the use of VOIP phones and contactless transportation payment cards are becoming very popular in the world. Since the Felica card is the most popular transportation payment card in Japan and NFC technology is actively being used in the country, the introduction of ACR122 has opened up new opportunities in Japan to the Group. The average price of ACR122 is about two times that of a PC linked reader.

BUSINESS REVIEW *(continued)*

Main products introduced to the market and business opportunities *(continued)*

The Group's introduction of more sophisticated smart cards, such as the PKI (public key infrastructure) cards (named ACOS5 cards) presented itself new opportunities. Over 150 thousands of ACOS5 cards were delivered in 2007 to a customer in Kenya as partial fulfillments of their order of 300 thousand cards. The customer uses the cards for a multi-purposed customer loyalty application for a supermarket chain. The Group launched into the market in 2007 its CryptoMate, a USB key integrating the PKI card and a reader chip. An order of five thousand units of CryptoMate was received in February 2008 from a customer in Serbia. The order is very interesting to the Group as these devices are to be issued by banks to their customers for securing on-line home-banking. Such an application is getting popular in many countries in the world. PKI cards are usually used for national identity card or health card projects. With such PKI technology built by the Group, it is aiming to supply cards for such nation-scaled projects initially in the developing countries. The average price of a smart card with PKI encryption is about three times that of a smart card using less sophisticated form of encryption.

Key products being developed

In 2007, the Group continued to perfect its desk-top and hand-held readers, built based on a 32-bit microprocessor and Linux operating system. These readers are expected to contribute substantially to the sales of the Group in 2008 and in the years to come. The first target application of these more sophisticated readers will be for the German health card project. In the first quarter of 2008, samples of these readers were delivered to the German certification authority for qualification. The German Government announced its plan to issue health cards to all its citizens, numbered at 82.4 million. At the industry estimate of around 80 cards to match one reader, the total number of readers required will be 1 million units. At an estimated market price of US$200 per unit, the market size will be substantial. Such health card applications are being spread to other European countries. In order to capture this emerging market, the Group established a company in Germany in 2007 in the name of Advanced Card Systems GmbH.

BUSINESS REVIEW *(continued)*

Key products being developed *(continued)*

Using the technology platform of the reader using 32-bit microprocessor, the Group has developed prototypes of a sophisticated device supporting contact and contactless cards, and with a finger print scanner, for a US-based global company for physical access control (i.e. control the opening and closing of doors and gates) applications. With annual sales over tens of billion US dollars, the global company is the world's leading provider of physical access control solutions.

The Group was engaged in developing in 2007 and plans to launch in 2008 APG82, a one-time password generator based on the CAP (chip authentication program) specification defined by MasterCard, a credit card company. APG82 generates a new password every time when making an authentication of users of the Internet for on-line transactions, such as on-line banking or micro-payment. APG82 enriches the Group's range of products such as the PC linked readers or the finger print readers for secure Internet transactions.

Trade shows attended

In 2007, the Group participated in the following smart card and security trade shows in the world by setting up an exhibition booth there:

(1) "RSA Conference 2007" in the USA during February 2007;

(2) "CeBIT Hannover 2007" in Germany during March 2007;

(3) "The 9th Smart Cards + Smart Label (RFID) China Exhibition & User's Conference (SCSL 2007)" in China during May 2007;

(4) "The 9th International Smart Card and RFID Technology Exhibition & Purchase, China 2007 (SCPC 2007)" in China during June 2007;

(5) "GITEX TECHNOLOGY WEEK 2007" in Dubai during September 2007;

(6) "SmartCards Expo 2007" in India during September 2007; and

(7) "CARTES & IDentification 2007" in France during November 2007.

Of the above trade shows, Number (1), (3), (4) and (5) were participated for the first time in 2007. The Group has now the strategy to increase the variety of trade shows participated in order to widen its customer base. To control the expense budget, thus some shows will be attended in alternate years rather than every year.

PROSPECTS

The prospects of the Group are good.

By implementing its three business strategies mentioned above, the Group has gained a better economy of scale and has gained further competitiveness. The Group has now built stronger teams in three locations able to secure the business opportunities by developing new products, promoting them, supplying them and providing the needed support.

Very few Asian companies in the smart card industry have gained a reputation in the world as a provider of quality smart card products with high technology content. The Group has proven to be able continuously to develop and introduce new quality products and secure business opportunities.

The innovative product ACR100 which won the Group the "Ducoty Award", the Industry award for product innovation by "CardsNow Asia", a famous industry journal and "Frost & Sullivan", has been proven to be a successful product and has brought to the Group considerable business in new applications.

The introduction by the Group the world's first PCSC compliant contactless reader supporting Sony's Felica cards and NFC technology is presenting us new business opportunities particularly in regions using such technologies such as Hong Kong, Singapore and Japan.

The more sophisticated eH880 and ACR880 are bringing to the Group business in the health card and physical access control applications.

The world market of smart cards and related security products which the Group develops and supplies, is growing rapidly. Smart cards are now used extensively in mobile phones, for transportation, as bank credit cards, health cards, national identity cards, etc. According to "Smart Card Technology International", a reputable trade journal published in The United Kingdom, the number of smart cards shipped in the world numbered 4.9 billion units in 2007 and the figure will increase in five years to 9.9 billion units in 2012. The rate of increase of the number of card readers shipped is expected to be higher as readers are gradually entering into the homes of consumers, thanks to the emerging home applications such as on-line banking, stock trading, micro-payment, access control of home doors, etc. Certainly, the number of homes to use readers will be much bigger than the number of organizations to use readers.

The Group has won a reputation as a world's leading supplier of PC linked readers. By making use of its customer base and by building new and innovative products based on its foundation of smart card technologies and knowledge, the Group is constantly opening up new opportunities in the expanding market.

It has always been the goal of the management of the Group to build a business with long-termed sustainable capability to grow in sales and profitability. The Group is getting closer and closer to this goal.

LIQUIDITY AND FINANCIAL RESOURCES

At all times the Group maintains an adequate liquidity position. As at 31 December 2007, the Group's cash at banks and on hand amounted to HK$13.8 million (2006: HK$7.9 million) which included the pledged bank deposits of HK$2.0 million (2006: HK$2.7 million). The HK$2.0 million pledged bank deposits were to secure bank credit lines. At 31 December 2007, the credit lines offered by the banks were not utilised (2006: Nil).

The current ratio, being the ratio of current assets to current liabilities, was kept at 4.0 (2006: 5.2). Net asset value as at the year end date was HK$37.3 million (2006: HK$32.9 million).

CAPITAL STRUCTURE

The Group's equity capital, together with the profit generated from operations, has been applied to fund its working capital and other operational needs. Usage of bank lines has been minimal. As at 31 December 2007, the Group did not have any borrowings and, accordingly, the gearing ratio was zero (2006: zero). The Group keeps most of its cash in Hong Kong dollars and United States dollars in bank accounts.

INVESTMENTS

During the year, the Group did not make any significant investments.

ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31 December 2007.

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

The assets, liabilities and transactions of the Group are primarily denominated in Hong Kong dollars or United States dollars and the exchange rates between such currencies have been stable during the year. There is no significant exposure to foreign exchange rate fluctuations. No hedging or other alternatives have been implemented during the year.

PLEDGE OF ASSETS

As at 31 December 2007, the Group had pledged deposits of US$257,000 with two banks for getting banking facilities. Save as disclosed herein, the Group did not pledge any of its assets.

CONTINGENT LIABILITIES

As at 31 December 2007, the Company had outstanding corporate guarantee of HK$6 million (plus accrued interest thereon) to two banks in respect of banking facilities granted to its main subsidiary. Save as disclosed herein, the Group did not have any significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2007, the Group had 83 full time employees. Staff costs amounted to HK$13.4 million (2006: HK$12.1 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.

The Group has also adopted share option schemes under which the employees of the Group may be granted share options to subscribe for shares in the Company for the purposes of recognising their contributions to the Group.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. WONG Yiu Chu, Denny

Mr. Denny Wong, aged 60, is the chairman and chief executive officer of the Company and the director of several subsidiaries of the Group. Mr. Wong founded Advanced Card Systems Limited ("ACS") in December 1995. In 1985, Mr. Wong founded his previous company, Advanced Electronics Limited, which distributed semiconductor components of Motorola Semiconductors (Hong Kong) Ltd., and provided design and application engineering services to manufacturers of consumer, industrial and telecommunication products. Later in 1997, Mr. Wong disposed of his entire shareholding interest in Advanced Electronics Limited to Future Electronics Holdings Inc., an electronic component distributor based in Canada and was appointed as its general manager for its distribution business in China during the period from July 1997 to April 2000. In June 2000, he became the chief executive officer of ACS. Mr. Wong obtained a bachelor of science degree in physics in 1972 and a masters degree in business administration in 1975 from The Chinese University of Hong Kong. He is the spouse of Ms. Tsui Kam Ling, Alice.

Mr. TAN Keng Boon

Mr. Tan Keng Boon, aged 49, joined the Group in October 1999 as a full-time consultant of ACS and has been a full-time employee and the chief technical officer of ACS since May 2003 and an executive director since 25 October 2003. He is also a director of a subsidiary of the Group. Mr. Tan is responsible for the implementation of a technical sales and marketing programme for existing and prospective customers of ACS. He has been involved actively in defining the product development road map of ACS 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. This past working experience of Mr. Tan has allowed him to develop a network of contacts with system solution providers as well as smart card and terminal vendors which are potential customers of the Group. Mr. Tan obtained a bachelor of engineering degree from the National University of Singapore in 1983.

Ms. TSUI Kam Ling, Alice

Ms. Alice Tsui, aged 55, joined the Group in September 1998 as the Vice President, Operations of ACS and is mainly responsible for supervising the sourcing of raw materials, product production, product quality control and logistics of the delivery of finished products to customers. She was appointed as an executive director on 23 March 2005. 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 which distributed semiconductor components until 1997 when it was acquired by Future Electronics Holdings Inc. She then worked as the administration manager of Future Advanced Electronics (Hong Kong) Limited from July 1997 to 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 1975. She is the spouse of Mr. Wong Yiu Chu, Denny.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. YIP Chak Lam, Peter

Dr. Peter Yip, aged 57, was appointed as an independent non-executive director on 25 October 2003. He was awarded a bachelor of science degree, a masters of philosophy degree and a doctor of philosophy degree, all in electronic engineering. He worked for Cable & Wireless in Hong Kong before he entered into teaching at Nanyang Technological Institute in Singapore in 1981. He joined and further pursued his academic career at City Polytechnic of Hong Kong (which later became City University of Hong Kong) from 1985 to 1994. During this period he started to engage in many telecommunications network and product design consultancy projects until he joined Hutchison in January 1995. In Hutchison, he was first put in charge of the engineering development and operations of its paging network, then stayed with the "Fixed Network" through the era of Hutchison Telecommunications (HK) Limited to Hutchison Global Crossing Limited ("HGC") until he retired in August 2002. He has been involved in all aspects in the building up and in the running of the "Fixed Network". He is widely acknowledged by peers as the main driving force of HGC. Dr. Yip is a Chartered Engineer and a fellow of the Institution of Electrical Engineers (IEE) of the United Kingdom. He has had one book and over 40 technical papers published. Dr. Yip is related to Mr. Wong Yick Man, Francis, an independent non-executive director of the Company, as common directors in Trident Telecom Ventures Limited.

Mr. YU Man Woon

Mr. Yu Man Woon, aged 57, was appointed as an independent non-executive director on 30 September 2004. He is currently the assistant general manager of a local bank. Mr. Yu obtained a masters degree in business administration from the University of Minnesota and has over 25 years of experience in banking and finance with various international financial institutions. He is an independent non-executive director of Hantec Investment Holdings Limited which is listed on the Main Board of the Stock Exchange of Hong Kong Limited.

Mr. WONG Yick Man, Francis

Mr. Francis Wong, aged 54, was appointed as an independent non-executive director on 1 June 2006. He is the Managing Director of Trident Telecom Ventures Limited. With a strong consulting background, he moved into the telecommunications industry in 1990. He was a founding director of the New World Telephone group and a key player in the deregulation process. Prior to 2000, he was the chief executive officer of a Hong Kong listed company and the founding partner of a major IDD wholesaler in the United States. Mr. Wong is a graduate of Hong Kong University and a fellow member of the Association of Chartered Certified Accountants and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants. Mr. Wong is related to Dr. Yip Chak Lam, Peter, an independent non-executive director of the Company, as common directors in Trident Telecom Ventures Limited.

SENIOR MANAGEMENT

Ms. WONG Mei Ki, Maggie

Ms. Maggie Wong, aged 33, is the Finance Manager and qualified accountant of the Group. Prior to joining the Group in June 2003, she has worked for an international accounting firm in Hong Kong. Ms. Wong obtained her bachelor degree in business administration from The Chinese University of Hong Kong. She is a fellow member of the Association of Chartered Certified Accountants and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants.

During the year, the Company has applied the principles of the Code on Corporate Governance Practices (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 of Hong Kong Limited. The Company has complied with the requirements of the Code except for the provision A.2 of the Code, which provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Details of the exception and the reasons for such exception are disclosed under the paragraph headed "Chairman and chief executive officer" on page 18 of this Annual Report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the rules governing dealings by directors in listed securities of the Company ("dealings rules") on terms no less exacting than the required standard of dealings as referred to in Rules 5.48 to 5.67 of the GEM Listing Rules as the codes of conduct regarding securities transactions by directors and by relevant employees as defined in the Code. Having made specific enquiry of all directors of the Company, all directors of the Company confirm that they complied with such dealings rules throughout the year ended 31 December 2007.

BOARD OF DIRECTORS

The Board comprises 3 executive directors, namely Mr. Wong Yiu Chu, Denny (being the chairman of the Board), Mr. Tan Keng Boon and Ms. Tsui Kam Ling, Alice; and 3 independent non-executive directors, Dr. Yip Chak Lam, Peter, Mr. Yu Man Woon and Mr. Wong Yick Man, Francis. Details of each director are disclosed on pages 14 to 15 of this Annual Report.

During the year ended 31 December 2007, the Board at all times exceeded the minimum requirements of the GEM Listing Rules 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 5.09 of the GEM Listing Rules from each of the independent non-executive director. The Company considers that all of its independent non-executive directors are independent.

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.

BOARD OF DIRECTORS *(continued)*

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.

The Company has held four meetings during the year ended 31 December 2007. Due notice and board papers were given to all directors prior to the meeting in accordance with the GEM Listing Rules and the Code. Details of individual attendance of directors are set out below:

	Name of director	Attended/ Eligible to attend
Executive directors	Wong Yiu Chu, Denny *(Chairman)*	4/4
	Tan Keng Boon	4/4
	Tsui Kam Ling, Alice	4/4
Independent non-executive directors	Yip Chak Lam, Peter	4/4
	Yu Man Woon	4/4
	Wong Yick Man, Francis	4/4

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

Ms. Tsui Kam Ling, Alice is the spouse of Mr. Wong Yiu Chu, Denny. Dr. Yip Chak Lam, Peter and Mr. Wong Yick Man, Francis are related as they are common directors in Trident Telecom Ventures Limited. Save as disclosed herein, there is no relationship (including financial, business, family or other material/relevant relationships) among members of the Board.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

NON-EXECUTIVE DIRECTORS

Dr. Yip Chak Lam, Peter and Mr. Yu Man Woon were re-appointed by the board of directors as the independent non-executive directors for a term of two years commencing from 1 June 2006. Mr. Wong Yick Man, Francis was appointed by the board of directors as the independent non-executive director for a term of two years commencing from 1 June 2006.

REMUNERATION OF DIRECTORS

The remuneration committee makes recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing the policy on such remuneration. 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 14 to the financial statements.

The remuneration committee comprises 3 members, namely Dr. Yip Chak Lam, Peter (being the chairman of the remuneration committee), Mr. Wong Yiu Chu, Denny and Mr. Yu Man Woon.

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

	Name of director	Attended/ Eligible to attend
Independent non-executive directors	Yip Chak Lam, Peter *(Chairman)*	1/1
	Yu Man Woon	1/1
Executive director	Wong Yiu Chu, Denny	1/1

NOMINATION OF DIRECTORS

The Board has not established a nomination committee. According to the Articles of Association of the Company, the Board has the power from time to time and at any time to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. In assessing nomination of new directors, the Board has taken into consideration of nominee's qualification, ability and potential contribution to the Company. No new appointment nor resignation has been made during the year.

AUDITORS' REMUNERATION

For the year ended 31 December 2007, the fee payable to the auditors in respect of audit services amounted to HK$270,000.

AUDIT COMMITTEE

The audit committee is primarily responsible for making recommendation 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 resignation or dismissal of that auditor; to review the Company's financial controls, internal controls and risk management systems; and to review the financial statements of the Company.

The audit committee comprises 3 members, namely Mr. Yu Man Woon (being the chairman of the audit committee), Dr. Yip Chak Lam, Peter and Mr. Wong Yick Man, Francis.

The audit committee has held four meetings during the year. Details of individual attendance of its members are set out below:

	Name of director	Attended/ Eligible to attend
Independent non-executive directors	Yu Man Woon *(Chairman)*	4/4
	Yip Chak Lam, Peter	4/4
	Wong Yick Man, Francis	4/4

Set out below is the summary of work performed by the audit committee during the year ended 31 December 2007:

(1) to approve the remuneration and terms of engagement of the external auditor;

(2) to monitor integrity of financial statements of the Company and the Company's 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 with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system.

ACCOUNTABILITY AND AUDIT

The directors acknowledged that it is their responsibility for preparing the accounts. A statement by the auditors about their reporting responsibilities is set out on pages 35 to 36 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 emphasizes 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 and regulations. 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. The Board is satisfied that, the present system of internal control is effective. The Group does not have the internal audit function and does not consider that there is a need to have one.

COMMUNICATION WITH SHAREHOLDERS

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. Procedure for voting by poll has been included in circular of the Company and has been read out by the chairman at the general meeting.

At the 2007 annual general meeting, a separate resolution was proposed by the chairman in respect of each separate issue, including re-election of directors. The chairman of the Board, audit committee and remuneration committee attended the 2007 annual general meeting to answer questions of shareholders.

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 2007.

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 16 to the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the year are set out in note 7 to the financial statements.

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	20%	—
Five largest customers in aggregate	43%	—
The largest supplier	—	32%
Five largest suppliers in aggregate	—	53%

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.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2007 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 37 to 85.

The directors recommend the payment of a dividend of HK0.4 cents per share for the year ended 31 December 2007. Subject to the approval by the shareholders at the forthcoming annual general meeting, the dividends will be paid to shareholders whose names appear on the register of members of the Company on 28 April 2008.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Tuesday, 22 April 2008 to Monday, 28 April 2008, both days inclusive. In order to qualify for the proposed dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Monday, 21 April 2008.

REPORT OF THE DIRECTORS

RESERVES

Profit for the year of HK$4,306,000 (2006: HK$2,564,000) 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 note 27 to the financial statements.

PLANT AND EQUIPMENT

Details of the movements in plant and equipment of the Group are set out in note 15 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in share capital and share options of the Company during the year are set out in notes 25 and 26 to the financial statements respectively.

DIRECTORS

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

Executive Directors
Mr. Wong Yiu Chu, Denny
Mr. Tan Keng Boon
Ms. Tsui Kam Ling, Alice

Independent Non-executive Directors
Dr. Yip Chak Lam, Peter
Mr. Yu Man Woon
Mr. Wong Yick Man, Francis

In accordance with Article 112 of the Company's Articles of Association, Ms. Tsui Kam Ling, Alice and Dr. Yip Chak Lam, Peter will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

The executive directors, Mr. Wong Yiu Chu, Denny, Mr. Tan Keng Boon and Ms. Tsui Kam Ling, Alice, have entered into service agreements with the Company which were renewed for further two years from 27 October 2006 to 26 October 2008 and shall continue thereafter unless and until terminated in accordance with the terms of the agreements. 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.

Dr. Yip Chak Lam, Peter and Mr. Yu Man Woon were re-appointed by the board of directors as the independent non-executive directors for a term of two years commencing from 1 June 2006 to 31 May 2008. Mr. Wong Yick Man, Francis was appointed by the board of directors as the independent non-executive director for a term of 2 years commencing from 1 June 2006 to 31 May 2008.

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

At 31 December 2007, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors as referred to in Rule 5.46 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") were as follows:

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(continued)*

	Long position in ordinary shares of HK$0.10 each					
Name of director	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 2007
Mr. Wong Yiu Chu, Denny *(Note 2)*	80,768,000	39,778,522	—	—	120,546,522	42.78%
Ms. Tsui Kam Ling, Alice *(Note 3)*	39,778,522	80,768,000	—	—	120,546,522	42.78%
Mr. Tan Keng Boon	157,893	—	—	—	157,893	0.06%

Notes:

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

2 80,768,000 shares are held by Mr. Wong Yiu Chu, Denny personally and 39,778,522 shares are held by his wife, Ms. Tsui Kam Ling, Alice personally. Mr. Wong Yiu Chu, Denny is taken to be interested in the shares held by Ms. Tsui Kam Ling, Alice under the SFO.

3 39,778,522 shares are held by Ms. Tsui Kam Ling, Alice personally and 80,768,000 shares are held by her husband, Mr. Wong Yiu Chu, Denny personally. Ms. Tsui Kam Ling, Alice is taken to be interested in the shares held by Mr. Wong Yiu Chu, Denny under the SFO.

Save as disclosed above, to the best knowledge of the directors of the Company, as at 31 December 2007, none of the directors or their associates had any personal, family, corporate or other interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the required standard of dealings by directors as referred to in Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEMES

(i) Pre-IPO Share Option Plan

Pursuant to the resolution of the shareholders of the Company dated 27 October 2003, the Company adopted a Pre-IPO Share Option Plan (the "Plan").

(a) *Purpose of the Plan*

The purpose of the Plan was to recognise the contribution of certain existing and past employees, directors of the Company and consultants of the Group to the growth of the Group and/or to the listing of the shares on GEM and for the purpose of cancellation of the terminated share option scheme.

(b) *Participants of the Plan*

All options granted under the Plan were granted to those directors, employees and consultants which held options granted to them under the terminated share option scheme and which were outstanding immediately prior to the cancellation of such scheme as consideration for their agreement to cancel these outstanding options.

(c) *Total number of shares available for issue under the Plan*

The maximum number of shares in respect of which options may be granted under the Plan was 6,535,631 shares, which represents approximately 2.32% of the issued share capital as at 19 March 2008.

(d) *Period within which the shares must be taken up under an option*

Any option may be exercised in accordance with its terms at any time during a period notified by the Board to each grantee provided that the period within which the option must be exercised shall be not more than 10 years from the date of grant of the option.

(e) *Payment on acceptance of the option offer*

HK$1.00 was payable by the Participant to the Company on acceptance of the option offer as consideration for the grant from the Offer Date to such date as the Board determined and specified in the Offer Letter, both days inclusive.

(f) *Basis of determining the exercise price*

The exercise price per share is HK$0.09 or HK$0.24.

SHARE OPTION SCHEMES *(continued)*

(i) Pre-IPO Share Option Plan *(continued)*

(g) Remaining life of the Plan

The Plan was valid and effective for a period commencing on 27 October 2003 and ending on the day immediately prior to the Listing Date i.e. 10 November 2003 (both dates inclusive), after which period no further options would be granted but in respect of all options which had been granted prior to the end of such period, the provisions of the Plan shall remain in full force and effect.

At 31 December 2007, the consultants and employees of the Group had the following interests in options to subscribe for shares of the Company (market value per share at 31 December 2007 was HK$0.275) with an exercise price of HK$0.09 or HK$0.24 per share under the Plan of the Company. The options are unlisted. Each option gives the holder the right to subscribe for one ordinary share of HK$0.10 each of the Company.

		Number of share options							
Grantees	Date granted	Balance as at 1 January 2007	Granted during the year	Exercised during the year	Lapsed during the year	Balance as at 31 December 2007	Period during which the options are exercisable	Exercise price per share	Percentage of the Company's issued share capital as at 31 December 2007
Consultants & Employees	27 October 2003	1,361,607	–	–	–	1,361,607 *(Note 1, 2)*	10 May 2004 to 24 July 2010	HK$0.09	0.48%
Employees	27 October 2003	862	–	–	–	862 *(Note 2)*	10 May 2004 to 27 December 2010	HK$0.09	0.01%
	27 October 2003	900,776	–	–	–	900,776 *(Note 3)*	10 May 2004 to 20 January 2013	HK$0.24	0.32%
		2,263,245	–	–	–	2,263,245			

SHARE OPTION SCHEMES *(continued)*

(i) Pre-IPO Share Option Plan *(continued)*

Notes:

1. 1,201,034 share options were granted to a consultant of the Group. All other options were granted to employees of the Group.

2. The options vested and were exercisable on 10 May 2004, which was 6 months after the listing date of the Company.

3. The options vested and were exercisable in three tranches as follows:

   (a) one-third of the options have vested and were exercisable on 10 May 2004;

   (b) a further one-third of the options have vested and were exercisable on 31 December 2004; and

   (c) the remaining one-third of the options have vested and were exercisable on 31 December 2005.

4. No option was granted, exercised, cancelled or lapsed during the year.

(ii) Share Option Scheme

Pursuant to the resolution of the shareholders of the Company dated 27 October 2003, the Company adopted a Share Option Scheme (the "Scheme"). As at the date of this report, no options had been granted under the Scheme.

(a) Purpose of the Scheme

The purpose of the Scheme is to provide the people and the parties working for the interest of the Group with an opportunity to obtain equity interest in the Company, thus linking their interest with the interest of the Group and thereby providing them with incentives to work better for the interest of the Group.

(b) Participants of the Scheme

Pursuant to the Scheme, the Company may grant options to any directors, employees, suppliers, advisors or consultants engaged by or worked for any member of the Group, who have in accordance with paragraph (a) above, contribute to the Group.

SHARE OPTION SCHEMES *(continued)*

(ii) Share Option Scheme *(continued)*

(c) Total number of shares available for issue under the Scheme

(1) At the time of adoption of the Scheme, the Company may seek approval of its shareholders in a general meeting to authorise the directors of the Company to grant options under the Scheme and any other share option schemes of the Company in issue entitling the Grantees to exercise up to an aggregate of 10% (the "Scheme Mandate Limit") of the total number of shares in issue immediately following completion of the Placing (excluding (i) any shares issued pursuant to the Scheme and any other share option schemes of the Company; and (ii) any pro rata entitlements to further shares issued in respect of those shares mentioned in (i)) unless the Company obtains a fresh approval from its shareholders pursuant to sub-paragraph (2) below. Options lapsed in accordance with the terms of the Scheme shall not be counted for the purpose of calculating the Scheme Mandate Limit.

(2) The Company may seek approval of its shareholders in general meeting to refresh the Scheme Mandate Limit such that the total number of shares in respect of which options may be granted by the directors of the Company under the Scheme and any other share option schemes of the Company in issue shall not exceed 10% (the "Refreshed Limit") of the issued share capital of the Company at the date of approval to refresh such limit (excluding (i) any shares issued pursuant to the Scheme and any other share option schemes of the Company; and (ii) any pro rata entitlements to further shares issued in respect of those shares mentioned in (i)). Options previously granted under the Scheme (including those outstanding, cancelled, lapsed in accordance with the Scheme or exercised options) shall not be counted for the purpose of calculating the Refreshed Limit.

(3) The Company may seek separate approval by its shareholders in general meeting for granting options beyond the Scheme Mandate Limit or, if applicable, the Refreshed Limit provided the options in excess of such limit are granted only to Participants specifically identified by the Company before such approval is sought.

Notwithstanding the above, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company shall not exceed 30% of the total number of shares in issue from time to time. No options may be granted under any schemes of the Company if this will result in the aforesaid 30% limit being exceeded.

SHARE OPTION SCHEMES *(continued)*

(ii) Share Option Scheme *(continued)*

(d) Maximum entitlement of each Participant

The maximum number of shares issued and to be issued upon exercise of the options granted and to be granted pursuant to the Scheme and any other share option schemes of the Company to each Participant (including both exercised and outstanding options) in any 12-month period up to and including the date of grant of the options shall not exceed 1% of the total number of shares in issue. Any further grant of options which will result in such limit being exceeded shall be subject to the separate approval of the shareholders of the Company in general meeting, at which such Participant and his associates shall abstain from voting.

(e) Time of exercise of option

An option may be exercised in accordance with the terms of the Scheme at any time during a period of not more than 10 years to be notified by the Board to each Grantee, which period shall commence on the date on which an offer of the grant of an option is accepted or deemed to be accepted in accordance with the terms of the Scheme and expire on the last day of such period as determined by the Board.

(f) Payment on acceptance of the option offer

HK$1.00 is payable by the Participant to the Company on acceptance of the option offer as consideration for the grant from the Offer Date to a date being the fourteenth day after the Offer Date (or such other date as may be specified in the Offer Letter), both days inclusive.

(g) Basis of determining the exercise price

The subscription price in respect of each share issued pursuant to the exercise of options granted hereunder shall be a price determined by the Board and notified to a Participant and shall be no less than the highest of: (i) the closing price of the shares as stated in the daily quotations sheet issued by the Stock Exchange on the Offer Date; (ii) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five consecutive Trading Days immediately preceding the Offer Date (provided that the new issued price for the listing of the shares shall be used as the closing price for any Trading Day falling within the period before listing of the shares if the shares have been listed for less than 5 Trading Days before the Offer Date); and (iii) the nominal value of a share.

(h) Remaining life of the Scheme

The Scheme will remain valid for a period of 10 years commencing 27 October 2003, after which period no further options will be granted but in respect of all options which remain exercisable at the end of such period, the provisions of the Scheme shall remain in full force and effect.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the paragraphs headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" and "Share option schemes" above, 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

In addition to the interests disclosed under the section "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, the Company has been notified of the following interests in the Company's issued shares at 31 December 2007 which as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

	Capacity	Total number of ordinary shares held	Percentage of the Company's issued share capital as at 31 December 2007
Proway Investment Limited *(Note 2)*	Beneficial owner	31,740,305 shares (L)	11.26%
Morningside CyberVentures Holdings Limited *(Note 2)*	Other	31,740,305 shares (L)	11.26%
Verrall Enterprises Holdings Limited *(Note 2)*	Other	31,740,305 shares (L)	11.26%
Madam Chan Tan Ching Fen *(Note 2)*	Other	31,740,305 shares (L)	11.26%

Notes:

1 The letter "L" stands for the shareholders' long position (within the meaning stated in the form for notification specified pursuant to the SFO) in shares.

2 Proway Investment Limited is wholly owned by Morningside CyberVentures Holdings Limited. Morningside CyberVentures Holdings Limited is wholly owned by Verrall Enterprises Holdings Limited in its capacity as trustee of a family trust established by Madam Chan Tan Ching Fen. Madam Chan Tan Ching Fen is taken to be interested in the shares disclosed herein in her capacity as founder of the trust (as that term is defined in the SFO).

Save as disclosed above, as at 31 December 2007 and to the best knowledge of the directors, there was no person (other than the directors and chief executive of the Company whose interests are set out in the paragraph "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above) 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.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, its subsidiaries, its fellow subsidiaries or its holding Company was a party and in which a director of the Company 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 or the management shareholders of the Company (as defined under the GEM Listing Rules) have any interests in a business which competes or may compete with the business of the Group during the 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.

BANK LOANS AND OTHER BORROWINGS

The Company and its subsidiaries obtained banking facilities during the year and no outstanding balances 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 86 of the annual report.

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. The Group has also adopted share option schemes under which the directors and employees of the Group may be granted share options to subscribe for shares in the Company for the purposes of recognising their contributions to the Group.

RETIREMENT SCHEMES

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme ("MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong who are eligible to participate in the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independent administrated fund. Pursuant to the rules of the MPF Scheme, the Group and its employees are each required to make contributions to the scheme at 5% of their monthly relevant income, up to HK$1,000 per month. Pursuant to the relevant regulations of the People's Republic of China (the "PRC"), the subsidiary in the PRC has participated in a central pension scheme operated by the local municipal government (the "Scheme"), whereby the PRC subsidiary is required to contribute a certain percentage of the basic salaries of their employees to the Scheme to fund their retirement benefits. The Company's subsidiary operating in the Philippines participates in the mandatory Social Security System contribution scheme ("SSS Scheme") as prescribed by the Philippine law. Pursuant to the rules of the SSS Scheme, the Group and the employees are required to make monthly contributions to the scheme fixed at 9.4% of their relevant monthly income (6.07% for employer and 3.33% for employee), up to PHP1,060 per month for employer and PHP500 for employee. Contributions of the Group to the MPF Scheme, the Scheme and the SSS Scheme are charged to the income statement as incurred. During the year, the retirement scheme contributions borne by the Group amounted to HK$465,000 (2006: HK$426,000).

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 during the year and up to the date of this report as required under the GEM Listing Rules.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The audit committee comprises three independent non-executive directors namely, Mr. Yu Man Woon (being the chairman of the audit committee), Dr. Yip Chak Lam, Peter and Mr. Wong Yick Man, Francis and reports to the board of directors. The primary duties are to carry out the duties of reviewing and supervising the financial reporting process and internal control system of the Group. The audit committee met once with the external auditors to review the effectiveness of the internal control systems and the Group's audited results for the year ended 31 December 2007.

AUDITORS

KPMG resigned as auditors of the Company with effect from 20 December 2005 and Grant Thornton were appointed to fill the casual vacancy in the office of auditors of the Company with effect from 23 December 2005. Save as disclosed herein, there was no other change in auditors of the Company in any of the preceding three years.

Grant Thornton retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Grant Thornton as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By order of the Board

WONG Yiu Chu, Denny
Chairman

Hong Kong, 19 March 2008

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To the members of Advanced Card Systems Holdings Limited
龍傑智能卡控股有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Advanced Card Systems Holdings Limited (the "Company") set out on pages 37 to 85, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, 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 notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements 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. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

INDEPENDENT AUDITORS' REPORT

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion 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 as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 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 state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Grant Thornton
Certified Public Accountants
Hong Kong

19 March 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Notes	**2007** *HK$'000*	2006 *HK$'000*
Revenue	5	**59,326**	43,165
Cost of sales		**(29,678)**	(20,092)
Gross profit		**29,648**	23,073
Other income	5	**475**	282
Other net losses	6	**(92)**	(196)
Administrative and other operating expenses		**(12,908)**	(12,111)
Research and development expenses		**(6,773)**	(4,074)
Selling and distribution costs		**(3,742)**	(3,014)
Operating profit		**6,608**	3,960
Finance costs	8.1	**(320)**	(206)
Profit before income tax	8	**6,288**	3,754
Income tax expense	9	**(1,982)**	(1,190)
Profit for the year	10	**4,306**	2,564
Dividends	11	**1,127**	—
Earnings per share attributable to equity holders of the Company	12		
Basic		**HK1.53 cents**	HK0.91 cents
Diluted		**HK1.52 cents**	HK0.91 cents

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	Notes	2007 *HK$'000*	2006 *HK$'000*
ASSETS AND LIABILITIES			
Non-current assets			
Plant and equipment	15	**2,580**	1,932
Development costs	17	**9,215**	9,393
Deferred tax assets	18	**780**	2,762
		12,575	14,087
Current assets			
Inventories	19	**10,179**	8,600
Trade and other receivables, deposits paid and prepayments	20	**9,072**	6,753
Held-to-maturity financial assets	21	**21**	17
Pledged bank deposits	22	**2,005**	2,691
Cash and cash equivalents	23	**11,771**	5,240
		33,048	23,301
Current liabilities			
Trade payables, deposits received and accruals	24	**8,351**	4,472
Net current assets		**24,697**	18,829
Net assets		**37,272**	32,916
EQUITY ATTRIBUTABLE TO THE COMPANY'S EQUITY HOLDERS			
Share capital	25	**28,180**	28,180
Reserves	27.1	**9,092**	4,736
Total equity		**37,272**	32,916

WONG Yiu Chu, Denny	TSUI Kam Ling, Alice
Director	*Director*

BALANCE SHEET

As at 31 December 2007

	Notes	**2007**	2006
		HK$'000	*HK$'000*
ASSETS AND LIABILITIES			
Non-current assets			
Interests in and amounts due from subsidiaries	16	**14,004**	46,742
Current assets			
Other receivables and prepayments	20	**207**	225
Amounts due from subsidiaries	16	**29,036**	—
Cash and cash equivalents	23	**3,328**	477
		32,571	702
Current liability			
Accruals	24	**245**	248
Net current assets		**32,326**	454
Net assets		**46,330**	47,196
EQUITY ATTRIBUTABLE TO THE COMPANY'S EQUITY HOLDERS			
Share capital	25	**28,180**	28,180
Reserves	27.2	**18,150**	19,016
Total equity		**46,330**	47,196

WONG Yiu Chu, Denny
Director

TSUI Kam Ling, Alice
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Cash flows from operating activities			
Profit before income tax		**6,288**	3,754
Adjustments for:			
Depreciation	8.2	**1,164**	968
Amortisation of development costs	8.2	**2,317**	1,339
Reversal of impairment loss on development costs	8.2	**—**	(124)
Finance costs	8.1	**320**	206
Write-back of impairment of trade receivables	8.2	**(10)**	(134)
Write down of inventories	8.2	**49**	—
Reversal of write-down of inventories	8.2	**—**	(540)
Impairment of trade receivables	8.2	**35**	9
Interest income	5	**(351)**	(230)
Loss on disposals of plant and equipment	6	**7**	—
Operating profit before working capital changes		**9,819**	5,248
(Increase)/Decrease in inventories		**(1,628)**	987
Increase in trade and other receivables, deposits paid and prepayments		**(2,346)**	(520)
Increase/(Decrease) in trade payables, deposits received and accruals		**3,879**	(1,658)
Net cash generated from operating activities		**9,724**	4,057
Cash flows from investing activities			
Purchase of plant and equipment		**(1,820)**	(749)
Proceeds from disposals of plant and equipment		**1**	—
Payments to acquire held-to-maturity financial assets		**(4)**	(17)
Development costs capitalised		**(2,139)**	(2,460)
Interest received		**353**	225
Decrease/(Increase) in pledged bank deposits		**686**	(2,000)
Net cash used in investing activities		**(2,923)**	(5,001)
Cash flows from financing activities			
Finance costs paid		**(320)**	(206)
Net cash used in financing activities		**(320)**	(206)
Net increase/(decrease) in cash and cash equivalents		**6,481**	(1,150)
Cash and cash equivalents at 1 January		**5,240**	6,390
Effect of foreign exchange rates, net		**50**	—
Cash and cash equivalents at 31 December		**11,771**	5,240

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Share capital	Share premium	Merger reserve	Translation reserve	Accumulated losses	Proposed dividend	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2006	28,180	24,333	4,496	—	(26,657)	—	30,352
Profit for the year	—	—	—	—	2,564	—	2,564
Total recognised income and expense for the year	—	—	—	—	2,564	—	2,564
At 31 December 2006 and 1 January 2007	28,180	24,333	4,496	—	(24,093)	—	32,916
Profit for the year	—	—	—	—	4,306	—	4,306
Translation differences recognised directly in equity	—	—	—	50	—	—	50
Total recognised income and expense for the year	—	—	—	50	4,306	—	4,356
Proposed dividend (note 11)	—	(1,127)	—	—	—	1,127	—
At 31 December 2007	28,180	23,206*	4,496*	50*	(19,787)*	1,127*	37,272

* The aggregated amount of the above balances of HK$9,092,000 (2006: HK$4,736,000) represented the reserves in the consolidated balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

1. GENERAL INFORMATION

Advanced Card Systems Holdings Limited (the "Company") was incorporated in the Cayman Islands on 13 April 2000 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. The address of its registered office is Ugland House, P.O. Box 309, George Town, Grand Cayman, Cayman Islands, British West Indies. 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 Company's shares are listed on The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activities of the Company and its subsidiaries (the "Group") include the development, sale and distribution of smart card products, software and hardware and the provision of smart card related services to its customers. Details of the principal activities of the subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

The financial statements on pages 37 to 85 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

The financial statements for the year ended 31 December 2007 were approved by the board of directors on 19 March 2008.

2. ADOPTION OF NEW OR AMENDED HKFRSs

In the current year, the Group has applied, for the first time, the following new standards, amendment and interpretation issued by HKICPA, which are effective for the Group's financial statements beginning on 1 January 2007.

HKAS 1 (Amendment)	Presentation of Financial Statements - Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) - Int 8	Scope of HKFRS 2
HK(IFRIC) - Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) - Int 10	Interim Financial Reporting and Impairment

The adoption of these new and amended HKFRSs had no material effect on how the results and financial position for the current or prior accounting period have been prepared. Accordingly, no prior period adjustment is required.

2. ADOPTION OF NEW OR AMENDED HKFRSs *(continued)*

HKAS 1 (Amendment) Presentation of Financial Statements - Capital Disclosures

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 31 to the financial statements.

HKFRS 7 Financial Instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial statements and the nature and extent of risks arising from those financial statements. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or the results of operations of the Group, comparative information has been included/revised where appropriate.

HK(IFRIC) - Int 10 Interim Financial Reporting and Impairment

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

2.1 New or amended HKFRSs that have been issued but are not yet effective

The Group has not early adopted the following HKFRSs that have been issued but are not yet effective. The directors of the Company are currently assessing the impact of these HKFRSs but are not yet in a position to state whether they would have material financial impact on the Group's consolidated financial statements.

HKAS 1 (Revised)	Presentation of Financial Statements [1]
HKAS 23 (Revised)	Borrowing Costs [1]
HKFRS 8	Operating Segments [1]
HK(IFRIC) - Int 11	HKFRS 2 - Group and Treasury Share Transactions [2]
HK(IFRIC) - Int 12	Service Concession Arrangements [3]
HK(IFRIC) - Int 13	Customer Loyalty Programmes [4]
HK(IFRIC) - Int 14	HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction [3]

[1] Effective for annual periods beginning on or after 1 January 2009

[2] Effective for annual periods beginning on or after 1 March 2007

[3] Effective for annual periods beginning on or after 1 January 2008

[4] Effective for annual periods beginning on or after 1 July 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements have been prepared on the historical cost basis except for the revaluation of certain financial assets and financial liabilities. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The area involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

3.3 Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, subsidiaries are carried at cost less impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.4 Foreign currency translation

The financial statements are presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities are recognised in the income statement. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into HK$. Assets and liabilities have been translated into HK$ at the closing rate at the balance sheet date. Income and expenses have been converted into HK$ at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with separately in the translation reserve in equity.

3.5 Revenue recognition

Revenue comprises the fair value for the sale of goods, rendering of services, net of rebates and discounts. 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 as follows:

Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

Smart card related services income are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income is recognised on a time-proportion basis using the effective interest rate method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.6 Research and development costs

Costs associated with research activities are expensed in the income statement as they occur. Costs that are directly attributable to the developments phase of new products are recognised as intangible assets provided they meet the following recognition requirements:

(i) demonstration of technical feasibility of the prospective product for internal use or sale;

(ii) the intangible asset will generate probable economic benefits through internal use or sale;

(iii) sufficient technical, financial and other resources are available for completion; and

(iv) the intangible asset can be reliably measured.

Direct costs include employee costs incurred on product development along with an appropriate portion of relevant overheads. Development costs are recognised initially at cost. After initial recognition, development costs are carried at cost less accumulated amortisation and impairment losses. Development costs capitalised are amortised to the income statement on a straight-line basis over their estimated useful lives of four years, commencing from the date on which the related products are put into commercial production. However, until completion of the development project, the assets are subject to impairment testing only as described below in note 3.8.

All other development costs which do not meet the above recognition criteria are expensed as incurred.

3.7 Plant and equipment

Plant and equipment are stated at acquisition cost less accumulated depreciation and impairment losses.

Depreciation is provided using the straight-line method to write off the cost less their residual values over their estimated useful lives, at the following rates:

Leasehold improvements	over the remaining term of the leases
Furniture and fixtures	4 years
Computer and office equipment	4 years
Moulds	4 years

The assets' estimated residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.7 Plant and equipment *(continued)*

The gain or loss arising on retirement or disposals is determined as the difference between the net sales proceeds and the carrying amount of the relevant asset and is recognised in the income statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

3.8 Impairment of assets

The Group's intangible assets, plant and equipment and the Company's interests in subsidiaries are subject to impairment testing.

Intangible assets not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, 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 assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Impairment loss is charged pro rata to the assets in the cash-generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.9 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Operating lease charges as the lessee

Where the Group has the right to use the assets held under operating lease, payments made under the leases are charged to the income statement on a straight-line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rental are charged to the income statement in the accounting period in which they are incurred.

3.10 Financial assets

The Group's financial assets are classified into (i) held-to-maturity investments; (ii) loans and receivables.

The Group's accounting policies for financial assets other than interests in subsidiaries are set out below.

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value plus directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. At each balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.10 Financial assets *(continued)*

(i) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group's management has the intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

Impairment of financial assets

At each balance sheet date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment. If any such evidence exists, the impairment loss is measured and recognised as follows:

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in the income statement of the period in which the impairment occurs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.10 Financial assets *(continued)*

Impairment of financial assets (continued)

Financial assets carried at amortised cost *(continued)*

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the income statement of the period in which the reversal occurs.

3.11 Inventories

Inventories comprise raw materials, supplies and purchased goods. Inventories are carried at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method and comprises all expenses directly attributable to the manufacturing process as well as suitable portions of the related production overheads, based on normal operating capacity. Financing costs are not taken into consideration. Net realisable value is the estimated selling price in the ordinary course of business less the applicable selling expenses.

3.12 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, tax authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the tax periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable income will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.12 Accounting for income taxes *(continued)*

Deferred tax liabilities are recognised for taxable temporary differences arising on interests in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

3.13 Cash and cash equivalents

Cash and cash equivalents include cash at banks and in hand as well as short term highly liquid investments.

3.14 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

3.15 Retirement benefit costs and short term employee benefits

Retirement benefits to employees are provided through defined contribution plans.

Defined contribution plan

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independent administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.15 Retirement benefit costs and short term employee benefits *(continued)*

Defined contribution plan (continued)

Pursuant to the relevant regulations of the People's Republic of China (the "PRC"), the employees of the subsidiary in the PRC are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

The Company's subsidiary operating in the Philippines participates in the mandatory Social Security System contribution scheme ("SSS Scheme") as prescribed by the Philippine law. Pursuant to the rules of the SSS Scheme, the Philippines subsidiary and the employees of the subsidiary in the Philippines are required to make monthly contributions to the scheme fixed at 9.4% of their relevant monthly income (6.07% for employer and 3.33% for employee), up to Philippine Pesos ("PHP") 1,060 per month for employer and PHP500 for employee. There are no provisions under the SSS Scheme whereby forfeited contributions may be used to reduce future contributions.

Short term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. Non-accumulating compensated absences are not recognised until the time of leave.

3.16 Equity-settled share-based payment transactions

All share-based payment arrangements granted after 7 November 2002 and had not vested on 1 January 2005 are recognised in the financial statements. The Group operates equity-settled share-based compensation plans for remuneration of its employees, directors and in exchange for goods or services.

Share options granted to employees and directors of the Group

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.16 Equity-settled share-based payment transactions *(continued)*

Share options granted to suppliers/consultants

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received. That fair value is measured at the date the Group obtains the goods or the counterparty renders service.

All share-based compensation is ultimately recognised as an expense in the income statement with a corresponding increase in equity. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, and if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are vested than originally estimated.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

3.17 Financial liabilities

The Group's financial liabilities include trade payables and accruals.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in finance costs in the income statement.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the income statement.

Payables and accruals

These are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest rate method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.18 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and 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.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

3.19 Financial guarantees issued

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in the income statement on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in the income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount i.e. the amount initially recognised less accumulated amortisation, where appropriate.

3.20 Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

In respect of business segment reporting, unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, plant and equipment, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.20 Segment reporting *(continued)*

Capital expenditure comprises additions to intangible assets and plant and equipment.

In respect of geographical segment reporting, revenue is based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

3.21 Related parties

Parties are considered to be related to the Group if:

(i) directly, or indirectly through one or more intermediaries, the party:

- — controls, is controlled by, or is under common control with, the Group;
- — has an interest in the Group that gives it significant influence over the Group;
- — has joint control over the Group;

(ii) the party is a jointly-controlled entity;

(iii) the party is an associate;

(iv) the party is a member of the key management personnel of the Group or its parent;

(v) the party is a close member of the family of any individual referred to (i) or (iv);

(vi) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

4.1 Research and development activities

Careful judgement by the Group's management is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgements are based on the best information available at each balance sheet date. In addition, all internal activities related to the research and development of products are continuously monitored by the Group's management.

4.2 Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and applicable selling expenses. These estimates are based on the current market conditions and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to the changes in market condition. Management reassesses these estimations at the balance sheet date.

4.3 Impairment of receivables

The Group's management determines impairment of receivables on a regular basis. This estimate is based on the credit history of its customers, past default experience and the current market conditions. Management reassesses the impairment of receivables at the balance sheet date.

4.4 Depreciation on plant and equipment

The Group depreciates its plant and equipment in accordance with the accounting policy stated in note 3.7. The estimated useful lives reflect the director's estimates of the period that the Group will derive future economic benefits from the use of the Group's plant and equipment. Management reassesses the estimated useful lives at the balance sheet date.

5. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, represents total invoiced value of goods supplied and income from provision of services rendered. Revenue and other income recognised during the year are as follows:

	2007 *HK$'000*	2006 *HK$'000*
Revenue		
Sale of smart card products, software and hardware	**58,188**	41,123
Smart card related services	**1,138**	2,042
	59,326	43,165

	2007 *HK$'000*	2006 *HK$'000*
Other income		
Forfeiture of deposits	**115**	—
Interest income	**351**	230
Sundry income	**9**	52
	475	282

6. OTHER NET LOSSES

	2007 *HK$'000*	2006 *HK$'000*
Net foreign exchange loss	**85**	196
Loss on disposals of plant and equipment	**7**	—
	92	196

7. SEGMENT INFORMATION

Primary reporting format - business segments

During the year, the Group was principally engaged in the development, sale and distribution of smart card products, software and hardware and the provision of smart card related services to its customers.

2007

	Development, sale and distribution of smart card products, software and hardware	Provision of smart card related services	Total
	HK$'000	*HK$'000*	*HK$'000*
Revenue	58,188	1,138	59,326
Segment results and operating profit	5,754	854	6,608
Finance costs			(320)
Profit before income tax			6,288
Income tax expense			(1,982)
Profit for the year			4,306
Capital expenditure	3,959	—	3,959
Depreciation and amortisation	3,481	—	3,481
Non-cash expenses other than depreciation and amortisation	168	—	168

7. SEGMENT INFORMATION *(continued)*

Primary reporting format - business segments *(continued)*

2006

	Development, sale and distribution of smart card products, software and hardware *HK$'000*	Provision of smart card related services *HK$'000*	Total *HK$'000*
Revenue	41,123	2,042	43,165
Segment results and operating profit	2,541	1,419	3,960
Finance costs			(206)
Profit before income tax			3,754
Income tax expense			(1,190)
Profit for the year			2,564
Capital expenditure	3,209	—	3,209
Depreciation and amortisation	2,307	—	2,307
Reversal of impairment loss on development costs	(124)	—	(124)
Non-cash expenses other than depreciation and amortisation	11	—	11

Over 90% of the segment assets and liabilities are attributable to the segment of "Development, sale and distribution of smart card products, software and hardware" and, accordingly, no segmental analysis of the Group's assets and liabilities is presented.

7. SEGMENT INFORMATION *(continued)*

Secondary reporting format - geographical segments

The Group's operations are located in Hong Kong. The following table provides an analysis of the Group's revenue by geographical market irrespective of the origin of the goods and services.

Sales revenue by geographical markets:

	2007	2006
	HK$'000	*HK$'000*
The Americas	**5,551**	5,545
Middle East and Africa	**8,691**	2,297
Asia Pacific	**14,867**	16,644
Europe	**30,217**	18,679
	59,326	43,165

Over 90% of the total assets and liabilities of the Group at the respective balance sheet dates were physically located in Hong Kong and substantially employed in Hong Kong. Accordingly, no geographical segmental analysis of the Group's assets and liabilities and capital expenditure is presented.

8. PROFIT BEFORE INCOME TAX

	2007	2006
	HK$'000	*HK$'000*
Profit before income tax is arrived at after charging/(crediting):		
8.1 Finance costs:		
Interests on bank borrowings wholly repayable within five years	**81**	45
Bank charges	**239**	161
	320	206

8. PROFIT BEFORE INCOME TAX *(continued)*

	2007	2006
	HK$'000	*HK$'000*
8.2 Other items:		
Amortisation of development costs	2,317	1,339
Auditors' remuneration	270	264
Cost of inventories recognised as expense	29,084	19,765
Depreciation	1,164	968
Impairment of trade receivables	35	9
Reversal of impairment loss on development costs	—	(124)
Write-down of inventories (note 19)	49	—
Reversal of write-down of inventories (note 19)	—	(540)
Write-back of impairment of trade receivables	(10)	(134)
Bad debts	84	1
Total research and development expenses	6,595	5,195
Less: Amount capitalised as development costs (note 17)	(2,139)	(2,460)
Add: Amortisation of development costs	2,317	1,339
Research and development expenses charged to income statement	6,773	4,074
Operating lease charges on land and buildings	1,569	1,318
Less: Amount included in research and development costs	(138)	(112)
	1,431	1,206

9. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made in the financial statements as a subsidiary of the Group has losses brought forward from previous years to offset against its current year's assessable profits and the Company and other subsidiaries sustained losses for taxation purposes for the years ended 31 December 2006 and 2007.

No provision for overseas taxation has been made as no assessable profits arose from the operations in the PRC, the Philippines, Canada and Germany during the year ended 31 December 2007 (2006: Nil).

9. INCOME TAX EXPENSE *(continued)*

	2007 *HK$'000*	2006 *HK$'000*
Deferred tax		
Current year	**1,982**	1,190
Income tax expense	**1,982**	1,190

Reconciliation between income tax expense and accounting profit at applicable tax rates:

	2007 *HK$'000*	2006 *HK$'000*
Profit before income tax	**6,288**	3,754
Tax on profit before income tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	**1,136**	691
Tax effect of non-deductible expenses	**670**	481
Tax effect of non-taxable revenue	**(42)**	(44)
Tax effect of unused tax losses not recognised	**214**	215
Tax effect of prior years' deferred tax recognised during the current year	**4**	(153)
Income tax expense	**1,982**	1,190

10. PROFIT FOR THE YEAR

Of the consolidated profit for the year of HK$4,306,000 (2006: HK$2,564,000), a loss of HK$866,000 (2006: HK$992,000) has been dealt with in the financial statements of the Company.

11. DIVIDENDS

No interim dividend for the year ended 31 December 2007 was declared.

A dividend of HK0.4 cents (2006: Nil) per share amounting to approximately HK$1,127,000 for the year ended 31 December 2007 (2006: Nil) has been proposed by the directors after the balance sheet date. The proposal is subject to approval by the shareholders at the forthcoming annual general meeting. The dividend proposed has not been recognised as a liability at the balance sheet date, but reflected as an appropriation of share premium for the year ended 31 December 2007.

12. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculations of the basic and diluted earnings per share are based on the following data:

	2007	2006
	HK$'000	*HK$'000*
Profit for the year for the purpose of calculating basic and diluted earnings per share	**4,306**	2,564

	2007	2006
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**281,800**	281,800
Effect of dilutive potential ordinary shares relating to outstanding share options	**990**	129
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**282,790**	281,929

13. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2007	2006
	HK$'000	*HK$'000*
Salaries and benefits	**14,742**	13,869
Pension costs - defined contribution plans	**465**	426
Total staff costs	**15,207**	14,295
Less: Amounts capitalised in development costs	**(1,829)**	(2,173)
Staff costs (after amount capitalised)	**13,378**	12,122

14. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

14.1 Directors' emoluments - Executive directors and non-executive directors

	Fees	Salaries, housing and other allowances and benefits in kind	Bonuses	Contributions to defined contribution plans	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2007					
Executive directors					
Mr Wong Yiu Chu, Denny	—	1,248	40	12	1,300
Mr Tan Keng Boon	—	708	40	12	760
Ms Tsui Kam Ling, Alice	—	708	40	12	760
Independent non-executive directors					
Dr Yip Chak Lam, Peter	120	—	—	—	120
Mr Yu Man Woon	120	—	—	—	120
Mr Wong Yick Man, Francis	120	—	—	—	120
	360	2,664	120	36	3,180

14. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS *(continued)*

14.1 Directors' emoluments - Executive directors and non-executive directors *(continued)*

	Fees	Salaries, housing and other allowances and benefits in kind	Bonuses	Contributions to defined contribution plans	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2006					
Executive directors					
Mr Wong Yiu Chu, Denny	—	1,248	—	12	1,260
Mr Mak Chi Him**	—	313	—	4	317
Mr Tan Keng Boon	—	691	20	12	723
Ms Tsui Kam Ling, Alice	—	600	20	12	632
Independent non-executive directors					
Dr Yip Chak Lam, Peter	120	—	—	—	120
Mr Cheong Chung Chin**	50	—	—	—	50
Mr Yu Man Woon	120	—	—	—	120
Mr Wong Yick Man, Francis*	70	—	—	—	70
	360	2,852	40	40	3,292

* appointed in 2006

** resigned in 2006

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

14. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS *(continued)*

14.2 Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included three (2006: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2006: two) individuals during the year are as follows:

	2007	2006
	HK$'000	*HK$'000*
Basic salaries, housing and other allowances and benefits in kind	924	1,168
Bonuses	96	20
Contributions to defined contribution plans	24	12
	1,044	1,200

The number of individuals' emoluments fell within the following bands:

	2007	2006
Nil - HK$1,000,000	2	2

No emoluments were paid by the Group to the directors and the remaining two (2006: two) highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2006: Nil).

15. PLANT AND EQUIPMENT - THE GROUP

	Leasehold improvements	Furniture and fixtures	Computer and office equipment	Moulds	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2006					
Cost	527	410	2,821	1,290	5,048
Accumulated depreciation	(76)	(165)	(1,841)	(815)	(2,897)
Net book amount	451	245	980	475	2,151
Year ended 31 December 2006					
Opening net book amount	451	245	980	475	2,151
Additions	2	32	538	177	749
Depreciation	(225)	(91)	(445)	(207)	(968)
Closing net book amount	228	186	1,073	445	1,932
At 31 December 2006					
Cost	525	441	3,334	1,460	5,760
Accumulated depreciation	(297)	(255)	(2,261)	(1,015)	(3,828)
Net book amount	228	186	1,073	445	1,932
Year ended 31 December 2007					
Opening net book amount	228	186	1,073	445	1,932
Additions	651	199	656	314	1,820
Disposal	—	(7)	(1)	—	(8)
Depreciation	(243)	(105)	(573)	(243)	(1,164)
Closing net book amount	636	273	1,155	516	2,580
At 31 December 2007					
Cost	831	565	3,798	1,774	6,968
Accumulated depreciation	(195)	(292)	(2,643)	(1,258)	(4,388)
Net book amount	636	273	1,155	516	2,580

16. INTERESTS IN AND AMOUNTS DUE FROM SUBSIDIARIES - THE COMPANY

	2007 *HK$'000*	2006 *HK$'000*
Unlisted shares, at cost	**14,004**	14,004
Amounts due from subsidiaries	**29,036**	32,738
Less: Portion under current assets	**(29,036)**	—
Non-current portion included in interests in and amounts due from subsidiaries under non-current assets	**14,004**	46,742

The amounts due from subsidiaries are unsecured, interest free and are repayable on demand. Amounts due from subsidiaries at 31 December 2006 were not repayable within one year.

The carrying amounts of amounts due from subsidiaries approximate to their fair values at the balance sheet dates.

Particulars of the subsidiaries at 31 December 2007 are as follows:

Name	Place/country of incorporation and kind of legal entity	Particulars of issued capital/ registered capital	Percentage of issued capital/ registered capital held by the Company Directly	Indirectly	Principal activities and place of operations
Advanced Card Systems Limited	Hong Kong, limited liability company	18,000,000 ordinary shares of HK$1 each	100%	—	Development, sale and distribution of smart card products, software and hardware and the provision of smart card related services in Hong Kong
Advanced Card Systems (Canada) Limited	Canada, limited liability company	1 ordinary share of CAD1 each	—	100%	Sale and distribution of smart card products, software and hardware and the provision of smart card related services in Canada

16. INTERESTS IN AND AMOUNTS DUE FROM SUBSIDIARIES - THE COMPANY *(continued)*

Name	Place/country of incorporation and kind of legal entity	Particulars of issued capital/ registered capital	Percentage of issued capital/ registered capital held by the Company		Principal activities and place of operations
			Directly	Indirectly	
Advanced Card Systems GmbH	Germany, limited liability company	EUR25,000	—	100%	Sale and distribution of smart card products, software and hardware and the provision of smart card related services in Germany
ACS Technologies Limited	Hong Kong, limited liability company	1 ordinary share of HK$1 each	100%	—	Development, sale and distribution of smart card products, software and hardware and the provision of smart card related services in Hong Kong and the Philippines
ACS Technologies (Shenzhen) Limited	The PRC, wholly foreign owned enterprise	HK$4.0 million (2006: HK$2.5 million)	—	100%	Development, sale and distribution of smart card products, software and hardware and the provision of smart card related services in the PRC

17. DEVELOPMENT COSTS - THE GROUP

	2007	2006
	HK$'000	*HK$'000*
Carrying amount at 1 January	**9,393**	8,148
Capitalised during the year (note 8.2)	**2,139**	2,460
Amortisation charge	**(2,317)**	(1,339)
Reversal of impairment loss	**—**	124
Carrying amount at 31 December	**9,215**	9,393
At 31 December		
Gross carrying amount	**24,116**	21,977
Accumulated amortisation and impairment losses	**(14,901)**	(12,584)
Net carrying amount	**9,215**	9,393

Amortisation charge is included in "Research and development expenses" in the consolidated income statement.

The directors have assessed the recoverable amount of the development costs, taking into consideration the expected market demand for the software and hardware products in the foreseeable future. Based on this assessment, a reversal of impairment loss amounted to HK$124,000 was identified in 2006. There was no such reversal made during the year.

18. DEFERRED TAX ASSETS - THE GROUP

18.1 Deferred tax assets and liabilities recognised

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2006: 17.5%)

The components of deferred tax assets and liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	Accelerated tax depreciation	Tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2006	(211)	4,163	3,952
Credited/(Charged) to income statement	33	(1,223)	(1,190)
At 31 December 2006 and 1 January 2007	(178)	2,940	2,762
Charged to income statement	(63)	(1,919)	(1,982)
At 31 December 2007	(241)	1,021	780

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable.

18.2 Deferred tax assets and liabilities unrecognised

Unrecognised deferred tax assets, representing the future benefit of tax losses to the extent that the directors do not consider it probable that sufficient taxable profits will be available in the foreseeable future, amounted to HK$214,000 (2006: HK$215,000). The tax losses do not expire under current tax legislation. There were no unrecognised deferred tax liabilities.

19. INVENTORIES - THE GROUP

	2007	2006
	HK$'000	*HK$'000*
Raw materials	8,242	6,132
Work in progress	118	125
Finished goods	1,819	2,343
	10,179	8,600

During the year ended 31 December 2007, the Group wrote off HK$49,000 (2006: reversal of HK$540,000) (note 8.2). The amount charged has been included in "Cost of sales" in the consolidated income statement.

20. TRADE AND OTHER RECEIVABLES, DEPOSITS PAID AND PREPAYMENTS

	The Group		The Company	
	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	7,539	6,440	—	—
Less: Impairment of receivables	(477)	(1,072)	—	—
Trade receivables - net	7,062	5,368	—	—
Other receivables	256	117	8	1
Deposits paid	657	529	—	—
Prepayments	1,097	739	199	224
	9,072	6,753	207	225

As at 31 December 2007, the amounts of other receivables, deposits paid and prepayments of the Group expected to be recovered after more than one year is HK$583,000 (2006: HK$109,000).

The carrying amounts of trade and other receivables approximate to their fair values at the balance sheet dates.

20. TRADE AND OTHER RECEIVABLES, DEPOSITS PAID AND PREPAYMENTS *(continued)*

Impairment losses in respect of trade 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 receivables directly. Movements in the provision for impairment of trade receivables are as follows:

	The Group	
	2007	2006
	HK$'000	*HK$'000*
At 1 January	**1,072**	1,197
Amount written off	**(620)**	—
Impairment loss and allowances charged to the income statement	**35**	9
Write-back of impairment of trade receivables	**(10)**	(134)
At 31 December	**477**	1,072

The ageing analysis of impaired trade receivables was as follows:

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Over 120 days	**35**	9

At each of the balance sheet date, the Group's trade receivables were individually determined to be impaired. The individually impaired receivables are recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment provision was recognised.

20. TRADE AND OTHER RECEIVABLES, DEPOSITS PAID AND PREPAYMENTS *(continued)*

Customers are generally granted credit terms of 30 to 60 days. As at 31 December 2007, the ageing analysis of net trade receivables was as follows:

	The Group	
	2007	2006
	HK$'000	*HK$'000*
0 - 30 days	**6,717**	2,993
31 - 60 days	**173**	777
61 - 90 days	**2**	36
Over 90 days	**170**	1,562
	7,062	5,368

The ageing analysis of net trade receivables was as follows:

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Not yet past due	**6,106**	1,288
1 - 90 days past due	**786**	2,518
91 - 180 days past due	**12**	1,311
Over 180 days past due	**158**	251
	7,062	5,368

Receivables related to a wide range of customers for whom there was no recent history of default.

21. HELD-TO-MATURITY FINANCIAL ASSETS - THE GROUP

	2007	2006
	HK$'000	*HK$'000*
Treasury bills, at amortised cost	21	17
Fair value of held-to-maturity financial assets	21	17

Treasury bills in the series of PIBL1207H124 have a fixed yield of 5% (2006: 4.75%) and mature on 13 August 2008 (2006: 10 January 2007). Interest of HK$356 (2006: Nil) was received during the year.

The carrying amounts of the held-to-maturity financial assets approximate to their fair values at the balance sheet dates.

22. PLEDGED BANK DEPOSITS - THE GROUP

As at 31 December 2007, the Group pledged deposits of HK$2,005,000 (2006: HK$2,691,000) to two banks to secure bank credit lines.

The interest of the deposits was calculated in accordance to deposit rates. The effective interest rates during the year were ranged from 4.05% to 5.06% (2006: 4.05% to 4.75%). They have a maturity of one month.

The carrying amounts of pledged bank deposits approximate to their fair values at the balance sheet dates.

23. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

	The Group		The Company	
	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Short-term bank deposits	2,730	1,170	2,730	—
Cash at bank and in hand	9,041	4,070	598	477
	11,771	5,240	3,328	477

23. CASH AND CASH EQUIVALENTS *(continued)*

The interest of short-term bank deposits was calculated in accordance to deposit rates. The effective interest rates during the year were ranged between 4.06% and 5.21% (2006: between 4.14% and 4.8%). They have a maturity of seven days to one month and are eligible for immediate cancellation without receiving any interest for the last deposit period.

Included in bank and cash balances of the Group is HK$1,123,000 (2006: HK$74,000) of bank balances denominated in Renminbi ("RMB") placed with the banks in the PRC. RMB is not a freely convertible currency.

The carrying amounts of cash and cash equivalents approximate to their fair values at the balance sheet dates.

24. TRADE PAYABLES, DEPOSITS RECEIVED AND ACCRUALS

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables	**5,075**	1,871	**—**	—
Deposits received	**600**	922	**—**	—
Accruals	**2,676**	1,679	**245**	248
	8,351	4,472	**245**	248

All of the deposits received and accruals are expected to be settled within one year of the balance sheet date.

The carrying amounts of trade payables and accruals approximate to their fair values at the balance sheet dates.

As at 31 December 2007, the ageing analysis of trade payables was as follows:

	The Group	
	2007	2006
	HK$'000	*HK$'000*
0 - 30 days	**5,052**	1,833
31 - 60 days	**19**	38
61 - 90 days	**4**	—
	5,075	1,871

25. SHARE CAPITAL - THE GROUP AND THE COMPANY

	2007		2006	
	Number of shares		Number of shares	
	'000	***HK$'000***	*'000*	*HK$'000*
Authorised:				
Ordinary shares of HK$0.10 each				
At 1 January and 31 December	**1,000,000**	**100,000**	1,000,000	100,000
Issued and fully paid:				
Ordinary shares of HK$0.10 each				
At 1 January and 31 December	**281,800**	**28,180**	281,800	28,180

26. SHARE-BASED EMPLOYEE COMPENSATION - THE COMPANY

Pursuant to resolutions of the shareholders passed on 27 October 2003, the share option scheme dated 25 July 2000 was terminated and a new share option scheme was adopted. Options were granted under the new share option scheme to those employees and directors of the Group and consultants engaged by or who worked for the Group who held options granted to them under the Company's terminated share option scheme dated 25 July 2000. Accordingly, the Company cancelled the options to subscribe for an aggregate of 816,250 ordinary shares of US$0.10 each under the terminated share option scheme dated 25 July 2000 and issued options under the new share option scheme to subscribe for an aggregate of 6,535,631 shares of HK$0.10 each at an exercise price of HK$0.09 or HK$0.24 per share.

At 31 December 2007, the total number of shares available for issue under the share option scheme was 2,263,245 (2006: 2,263,245), representing approximately 0.8% (2006: 0.8%) of the issued share capital of the Company at that date.

26. SHARE-BASED EMPLOYEE COMPENSATION - THE COMPANY *(continued)*

Share options and exercise price are as follows for the reporting periods presented:

Year ended 31 December 2007:

Grantees	Date granted	Number of share options: Balance as at 1 January 2007	Granted during the year	Exercised during the year	Lapsed during the year	Balance as at 31 December 2007	Period during which the options are exercisable	Exercise price per share	Percentage of the Company's issued share capital as at 31 December 2007
Consultants & employees	27 October 2003	1,361,607	—	—	—	1,361,607 *(Note 1)*	10 May 2004 to 24 July 2010	HK$0.09	0.48%
Employees	27 October 2003	862	—	—	—	862 *(Note 1)*	10 May 2004 to 27 December 2010	HK$0.09	0.01%
	27 October 2003	900,776	—	—	—	900,776 *(Note 2)*	10 May 2004 to 20 January 2013	HK$0.24	0.32%
		2,263,245	—	—	—	2,263,245			

Year ended 31 December 2006:

Grantees	Date granted	Number of share options: Balance as at 1 January 2006	Granted during the year	Exercised during the year	Lapsed during the year	Balance as at 31 December 2006	Period during which the options are exercisable	Exercise price per share	Percentage of the Company's issued share capital as at 31 December 2006
Consultants & employees	27 October 2003	1,521,745	—	—	(160,138) *(Note 3)*	1,361,607 *(Note 1)*	10 May 2004 to 24 July 2010	HK$0.09	0.48%
Employees	27 October 2003	862	—	—	—	862 *(Note 1)*	10 May 2004 to 27 December 2010	HK$0.09	0.01%
	27 October 2003	1,100,949	—	—	(200,173) *(Note 3)*	900,776 *(Note 2)*	10 May 2004 to 20 January 2013	HK$0.24	0.32%
		2,623,556	—	—	(360,311)	2,263,245			

26. SHARE-BASED EMPLOYEE COMPENSATION - THE COMPANY *(continued)*

Notes:

(1) These options vested and were exercisable on 10 May 2004, which was 6 months after the listing date of the Company.

(2) The options vested and were exercisable in three tranches as follows:

(a) one-third of the options have vested and were exercisable on 10 May 2004;

(b) a further one-third of the options have vested and were exercisable on 31 December 2004; and

(c) the remaining one-third of the options have vested and were exercisable on 31 December 2005.

(3) The options lapsed upon the resignation of 2 participants from the Group during 2006.

(4) No options was granted, exercised, cancelled or lapsed during the year.

27. RESERVES

27.1 The Group

The amount of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 41 of the financial statements.

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

27.2 The Company

	Share premium	Accumulated losses	Proposed dividend	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2006	24,333	(4,325)	—	20,008
Loss for the year	—	(992)	—	(992)
At 31 December 2006 and 1 January 2007	24,333	(5,317)	—	19,016
Loss for the year	—	(866)	—	(866)
Proposed dividend (note 11)	(1,127)	—	1,127	—
At 31 December 2007	23,206	(6,183)	1,127	18,150

27. RESERVES *(continued)*

27.2 The Company *(continued)*

Included in the reserves of the Company available for the distribution is share premium arising from the issuance of Series A preference shares in June and October 2000. All Series A preference shares have been redeemed on 7 November 2003.

Under the Companies Law (revised) of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which a dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

28. OPERATING LEASE COMMITMENTS

The Group

At 31 December 2007, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

	2007	2006
	HK$'000	*HK$'000*
Within one year	**1,281**	873
In the second to fifth years, inclusive	**1,976**	83
	3,257	956

The Group leases a number of land and buildings under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease and renegotiated the terms at the expiry date or at dates as mutually agreed between the Group and respective landlords/lessors. None of the leases include contingent rentals.

The Company

The Company did not have any significant operating lease commitments as at 31 December 2006 and 2007.

29. MATERIAL RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

	2007	2006
	HK$'000	*HK$'000*
Consultancy fees payable *(note (i))*	20	45
Key management personnel remuneration		
– Salaries and other short-term employee benefits	3,675	4,497
– Retirement benefits costs	48	54
	3,723	4,551

Note:

(i) A subsidiary entered into agreement with Mr. Tong Kam Hung for the provision of consultancy services. The terms of the consultancy fees are determined based on services provided with reference to market rates. Mr. Tong Kam Hung is interested in the agreement as a consultant and a shareholder of the Company.

At 31 December 2007, the Company has given corporate guarantees to one of its wholly owned subsidiary to the extent of HK$6,000,000 (2006: HK$4,000,000) for certain banking facilities granted, which remained unused as at 31 December 2006 and 2007.

The directors of the Company are of the opinion that the above transactions with related parties were conducted in accordance with the terms mutually agreed between the Group and the related parties.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which result from both its operating and investment activities. The Group does not have written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate strategies to manage the Group's exposure to market risk, including changes in interest rates and currency exchange rates. Generally, the Group introduces conservative strategies on its risk management. The Group's exposure to market risk is kept to a minimum. The Group has not used any derivatives or other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes.

30.1 Currency risk

The Group mainly operated in Hong Kong and with most of the assets, liabilities and transactions of the Group are primarily denominated in Hong Kong dollars and United States dollars and did not have significant exposure to risk resulting from changes in foreign currency exchange rates. No hedging or other alternatives have been implemented during the period.

30.2 Credit risk

The Group's exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, as summarised below:

	2007	2006
	HK$'000	*HK$'000*
Trade and other receivables	**7,318**	5,485
Held-to-maturity financial assets	**21**	17
Pledged bank deposits	**2,005**	2,691
Cash and cash equivalents	**11,771**	5,240
	21,115	13,433

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

30.2 Credit risk *(continued)*

The Group has no significant concentrations of credit risk. The carrying amount of trade and other receivables, held-to-maturity financial assets, pledged bank deposits and cash and cash equivalents represents the Group's maximum exposure to credit risk in relation to its financial assets. The Group's bank balances are deposited with major banks with good credit ratings. No other financial assets carry a significant exposure to credit risk. In addition, for sales to new customers, deposits are received to mitigate credit risk. The Group has adopted a no-business policy with customers lacking an appropriate credit history.

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The directors consider that all the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality.

30.3 Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

The Group's exposure to market risk for changes in interest rates relates primarily to held-to-maturity financial assets, short-term bank deposits and pledged bank deposits which bear floating interest rates. At 31 December 2007, if interest rates had increased or decreased by 0.5% and all other variables were held constant, the Group's profit for the year would be increased or decreased by approximately HK$49,000 (2006: HK$35,000). This is mainly attributable to the Group's exposure to floating interest rates of the held-to-maturity financial assets, short-term bank deposits and pledge bank deposits. The Group has no significant interest-bearing liabilities.

30.4 Fair values

The carrying amounts of the Group's financial assets including pledged bank deposits, cash and cash equivalents, held-to-maturity financial assets, trade and other receivables and financial liabilities including trade payables and accruals are not materially different from their fair values because of the immediate or short term maturity of these financial instruments.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

30.5 Liquidity risk

The Group carefully monitors the cash flow in day-to-day business. The Group maintains sufficient cash to finance the operation of the subsidiaries in Hong Kong and overseas. The Group has cash flow from operating activities and the cash generated from the major business amounted to HK$9,724,000 (2006: HK$4,057,000). To meet short term cash shortage, the Group makes use the trade credit lines provided by the banks.

30.6 Summary of financial assets and liabilities by category

The carrying amounts of the Group's financial assets and liabilities as recognised at 31 December 2007 and 2006 may be categorised as follows. See notes 3.10 and 3.17 for explanations about how the category of financial instruments affects their subsequent measurement.

(i) Financial assets

	2007	2006
	HK$'000	*HK$'000*
Loans and receivables		
Trade receivables	7,062	5,368
Other receivables	256	117
	7,318	5,485
Held-to-maturity financial assets	21	17
Cash and cash equivalents	11,771	5,240
Pledged bank deposits	2,005	2,691
	13,776	7,931
	21,115	13,433

(ii) Financial liabilities

	2007	2006
	HK$'000	*HK$'000*
Amortised cost		
Trade payables and accruals	7,751	3,550

31. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Group's capital management objectives are:

- to safeguard the Group's ability to continue as a going concern, so that it continues to provide returns for shareholders and benefits for other stakeholders;
- to support the Group's stability and growth;
- to provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. Capital includes equity attributable to equity holders of the Company. The gearing ratios at 31 December 2006 and 2007 were zero as the Group has no borrowing or debt.

32. COMPARATIVES

The Group previously disclosed research and development expenses within administrative expenses. Management believes that their exclusion from administrative expenses and disclosed as a separate line item on the consolidated income statement is a fairer presentation of the Group's activities.

As a result of adopting HKFRS 7, Financial Instruments: Disclosures, and HKAS 1 (Amendment), Presentation of Financial Statements – Capital Disclosures, certain comparative figures have been adjusted to conform with changes in disclosures in the current year and to show separately comparative amounts in respect of items disclosed for the first time in 2007.

FINANCIAL SUMMARY

31 December

	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
RESULTS					
Revenue	**59,326**	43,165	38,853	24,369	38,646
Cost of sales	**29,678**	20,092	21,808	14,243	17,950
Gross profit	**29,648**	23,073	17,045	10,126	20,696
Gross profit margin	**50%**	53%	44%	42%	54%
Profit/(Loss) for the year	**4,306**	2,564	196	(13,994)	11,753
Net profit margin	**7%**	6%	1%	—	30%
ASSETS AND LIABILITIES					
Total assets	**45,623**	37,388	36,482	35,301	52,099
Total liabilities	**8,351**	4,472	6,130	5,145	8,111
Total equity	**37,272**	32,916	30,352	30,156	43,988