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

2008

*For identification only

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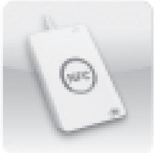
As at the date of this document, the Board comprises 3 executive directors, namely Mr. Wong Yiu Chu, Denny, Mr. Tan Keng Boon and Ms. Tsui Kam Ling, Alice; and 3 independent non-executive directors, Dr. Yip Chak Lam, Peter, Mr. Yu Man Woon and Mr. Wong Yick Man, Francis.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CORPORATE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

REGISTERED OFFICE

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Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE & PRINCIPAL PLACE OF BUSINESS

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Chevalier Commercial Centre
8 Wang Hoi Road
Kowloon Bay
Hong Kong

PRINCIPAL BANKERS

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 609
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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Rooms 1806-1807, 18th Floor
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183 Queen's Road East
Hong Kong

COMPANY'S WEBSITE ADDRESS

www.acs.com.hk

STOCK CODE

8210

CHAIRMAN'S STATEMENT

On behalf of Advanced Card Systems Holdings Limited and its subsidiaries (the "Group"), I am pleased to present the Group's annual results for the year ended 31 December 2008.

The year of 2008 was a year of growth of the Group, in sales revenue, in net profit and in headcount. In 2008, the sales increased by 62% to HK$96.1 million from HK$59.3 million for 2007. The net profit after tax more than doubled from HK$4.3 million to HK$9.7 million. The cash increased to HK$23.6 million at 2008 year end from HK$13.8 million a year ago. Basic earnings per share in 2008 increased by 125% to HK3.44 cents compared with HK1.53 cents in 2007. The Group will pay HK$2.3 million as dividend. After increasing the headcount from 70 full-time employees at 31 December 2006 to 83 at 31 December 2007, the Group further expanded the work force to 127 people at 31 December 2008. The Group has main offices in three regions - Hong Kong SAR, China and the Philippines. The expansion was mainly in China and in the Philippines.

The Group grew its business in all three broad lines of products, namely, smart cards, smart card readers, and design and consultation services. These three lines represented 18%, 80% and 2% of the total sales in 2008 respectively. The regional breakdown indicates that Europe represented 60% of the sales of the Group in 2008. The Group undertook various programs in order to boost the sales in Asia Pacific particularly in China. It expects major growth in China in 2009. In 2008, the Group succeeded to get its key product, the PC-linked reader to be certified against the FIPS (Federal Information Processing Standard) by the USA government. Since the USA government is by far the biggest buyer of smart cards and readers in the USA market, the Group is focusing on the government projects in the USA.

The Group undertook various projects in line with its mission to become a leading provider of smart card and smart card reader technologies to the world market.

It launched three new models of smart card readers using 8-bit Micro-controllers to the market in 2008. It was engaged busily in developing another three models of more sophisticated readers using the more advanced 32-bit Micro-controllers. All these three models of products entered their final stages of prototyping and testing. The Group expects to be able to launch these products in 2009.

In 2008, the Group expanded its sales and marketing activities in order to make itself better known and to promote its products to the world market. It participated in ten trade shows in 2008 in different countries in the world.

The Beijing Olympic Games was a major event in the world in 2008. The Group had the honour to be invited by the World Olympians Association ("WOA") to provide smart cards, smart card readers and software to secure its events.

The Group has spent some years in developing a web-based enterprise management program. The Group intends to sell this program to the commercial market by empowering this program with smart cards for enhancing its data security and for enriching the program with a Time and Attendance solution and other smart card based solutions. In 2008, the Group established a fully owned subsidiary to prepare the launch of the on-line business solutions to the commercial market.

CHAIRMAN'S STATEMENT

The current financial crisis and economic slowdown on a worldwide scale seems to be unprecedented. It would be too optimistic to say that the Group's business would not be affected even though the degree of the impact cannot be determined presently. The management have confidence that with improved liquidity, better cash position, an expanded network of customers, better economies of scale and by better control of expenses, the Group will be able to cope with the current and upcoming recession.

I would like to take this opportunity to express my thanks to the Group's staff members for their dedication and hard work during the year of 2008, to the three independent non-executive directors for their advices, to the customers for their great patronage and to the shareholders for their support.

WONG Yiu Chu, Denny
Chairman
Hong Kong, 20 March 2009

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group increased its sales revenue by 62% to HK$96.1 million in the year 2008 from HK$59.3 million in 2007. Gross profit increased by 50% only, owing to a lower gross profit margin of 46% in 2008 versus 50% in 2007 as the gross profit margin of PC-linked readers which saw the greatest growth rate in 2008 was less than most of the other products.

The Group increased its sales in smart cards, smart card readers and service income as shown in the following chart.

	2008	2007	Change
	HK$'000	*HK$'000*	
Smart cards	**17,526**	13,668	+28%
Smart card readers	**76,472**	44,520	+72%
Smart card related services	**2,096**	1,138	+84%
	96,094	59,326	+62%

The Group succeeded to secure business from several government led smart card projects in Europe in 2008 and thus its sales in this region expanded the most.

In Asia, the Group has attained only a small market share in the two important markets of China and Japan. The Group had some successes in expanding its influence in these two areas in 2008. Accelerated growths are expected to happen there in 2009.

The business in the Middle East and Africa was fluctuating over the years. There may be a smaller number of projects in this region comparing with the other regions but the project sizes are usually not smaller. The Group is expecting to win some interesting business deals in the region in 2009.

	2008	2007	Change
	HK$'000	*HK$'000*	
Europe	**57,528**	30,217	+90%
Asia Pacific	**23,667**	14,867	+59%
Middle East and Africa	**7,466**	8,691	-14%
The Americas	**7,433**	5,551	+34%
	96,094	59,326	+62%

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(continued)*

The operating expenses increased by 36% mainly owing to the increase of headcount. The Group operates mainly in Hong Kong SAR, China and the Philippines and the headcount increase was made mainly in the latter two regions. Attending more trade shows and increased advertising and other promotional activities added to the increases.

The Group continued to gain economies of scale. As the increase in gross profit exceeded the increase in expenses, the Group increased its net profit from HK$4.3 million in 2007 to HK$9.7 million in 2008.

	2008	2007	Change
	HK$'000	*HK$'000*	
Revenue	**96,094**	59,326	+62%
Cost of sales	**(51,625)**	(29,678)	+74%
Gross profit	**44,469**	29,648	+50%
Gross profit margin	**46%**	50%	
Other income	**500**	475	+5%
Administrative expenses	**(14,435)**	(13,029)	+11%
Research and development expenses	**(10,419)**	(6,772)	+54%
Selling and distribution costs	**(7,198)**	(3,714)	+94%
Total operating expenses	**(32,052)**	(23,515)	+36%
Operating profit	**12,917**	6,608	+95%
Finance costs	**(387)**	(320)	+21%
Profit before income tax	**12,530**	6,288	+99%
Income tax expense	**(2,826)**	(1,982)	+43%
Profit for the year	**9,704**	4,306	+125%

The cash amounted to HK$23.6 million at 31 December 2008 comparing with HK$13.8 million at 31 December 2007. The trade and other receivables, deposits paid and prepayments amounted to HK$9.6 million representing 6% increase from the corresponding figure of HK$9.1 million a year ago. The inventories increased by 19% to HK$12.1 million from HK$10.2 million. These increase rates were much lower than the rate of increase in sales revenue indicating faster turnover of these current assets.

Trade payables, deposits received and accruals increased by 31% to HK$10.9 million from HK$8.4 million a year ago. At 31 December 2008, there was no bank borrowing.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(continued)*

	2008	2007	Change
	HK$'000	*HK$'000*	
ASSETS AND LIABILITIES			
Non-current assets			
Plant and equipment	**3,540**	2,580	+37%
Development costs	**9,238**	9,215	+0%
Deferred tax assets	**—**	780	-100%
	12,778	12,575	+2%
Current assets			
Inventories	**12,129**	10,179	+19%
Trade and other receivables, deposits paid and prepayments	**9,607**	9,072	+6%
Held-to-maturity financial assets	**19**	21	-10%
Cash at banks and on hand	**23,621**	13,776	+71%
	45,376	33,048	+37%
Current liabilities			
Trade payables, deposits received and accruals	**10,927**	8,351	+31%
Provision for taxation	**1,157**	—	N/A
	12,084	8,351	+45%
Net current assets	**33,292**	24,697	+35%
Total assets less current liabilities	**46,070**	37,272	+24%
Non current liabilities			
Deferred tax liabilities	**258**	—	N/A
Net assets	**45,812**	37,272	+23%
EQUITY ATTRIBUTABLE TO THE COMPANY'S EQUITY HOLDERS			
Share capital	**28,180**	28,180	—
Reserves	**17,632**	9,092	+94%
Total equity	**45,812**	37,272	+23%

MANAGEMENT DISCUSSION AND ANALYSIS

DIVIDEND

The board of directors (the "Board") has recommended the payment of a dividend of HK0.8 cents (2007: HK0.4 cents) per share of HK$2.3 million for the year ended 31 December 2008. Subject to the approval by the shareholders at the forthcoming annual general meeting on 8 May 2009, the dividend will be paid on 18 May 2009 to shareholders whose names appear on the register of members of the Company on 8 May 2009.

BUSINESS REVIEW

The Group has the mission to become a leading provider of smart card and smart card reader technologies in the world market. It is gradually extending its business to the provision of enterprise management software initially using smart cards and readers as tools to empower the software. The Group's products are made in contract manufacturers located mainly in Guangdong, China based on the technical information provided and quality standard set by the Group.

The Group supplies smart cards and smart card readers to over one hundred countries in the world. It was ranked by Frost & Sullivan, an independent market research institution based in USA, as the world's fourth and Asia Pacific's top supplier of PC-linked smart card readers. These readers are used with smart cards to enhance the security of use of various on-line services by governments, by banks and by other organizations.

The Group has been implementing several key strategies in order to expand its business and profitability.

Firstly, the Group combines the strengths of the staff members working in three regions, Hong Kong SAR, China and the Philippines. The functions of hardware development, embedded software development, PC software development and other intellectual property development, technical support, finance, logistics and management are divided and allocated to different offices based on their specialty, expertise and competitive advantages.

Secondly, the Group is expanding its headcount in China and the Philippines in order to achieve better economies of scales. The Group had 127 full-time employees at 31 December 2008 versus 83 at 31 December 2007. The Group has sales representatives working in Tokyo, Japan and Toronto, Canada.

Thirdly, the Group has been developing a web-based enterprise management program for internal use. The Group has a plan to launch the program to the commercial market and has established a fully owned subsidiary called Teczo.com, Limited in 2008 to focus on this emerging business of offering on-line business solutions.

In line with the Group's mission and strategies, there were various activities carried out in 2008 as described in the following paragraphs.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(continued)*

Successes in securing business deals

In 2008, the Group succeeded in winning some business deals over the world. Three successful cases are mentioned below as examples.

(1) Winning a tender to supply smart card readers for the health card project in Italy

The Group secured an order of 600,000 PC-linked readers from a long-time customer in Italy as the result of the success of a bid for a government tender. The readers are for reading and writing on the health cards for the Lombardia region of Italy and are used by the citizens, pharmacies, doctors, hospitals, etc. for medical services such as by a patient to make on-line an appointment with a doctor or by a person to get a certificate from a doctor before doing a special sport. These health cards are also used as a kind of identity cards for on-line government services. The capital being Milan, Lombardia is one of the 20 regions of Italy. One-sixth of Italy's population (of 58 million) live in Lombardia and about one fourth of Italy's GDP is accounted for by this region. The order of 600,000 readers was fulfilled by the end of 2008. This project was a high-profile project with most of the world's leading suppliers of PC-linked readers making a bid. A combination of product quality, cutting edge technology and competitive prices enabled the Group to win this business.

(2) Smart card readers in an East Asian country to be used in a home ATM project

The Group supplied 100,000 smart card readers to a customer in East Asia for a project in which smart cards and readers are used together with a VoIP phone provided by a bank.

The bank introduced a new way of bank account management instead of traditional PC Internet Banking, ATM Banking and Phone Banking. This new way makes use of the VoIP phone at home. The Group's ACR38U-BMC smart card reader is used to do authentication, balance/transaction enquires, micro-payment and other bank services with the reader connected to particular VoIP phones. No PC is required. The bank not only acts as a service provider but also lined up some parties to accomplish this project. The VoIP phone operator is the no.1 wired phone operator locally, with more than 30 million clients. Thus, the potential demand of ACR38 is big. The bank wants to make use of the phone operator's big client base to promote its banking services, and so it is offering the reader free of charge for connecting to the VoIP phone. This project benefits home users of banking services, especially those with no access to a PC.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(continued)*

Successes in securing business deals *(continued)*

(3) Contactless card readers and contactless tags supplied to Europe

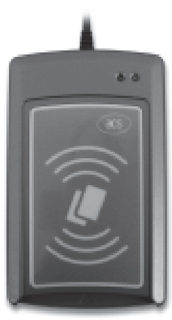
Thousands of readers of contactless cards and NFC tags, model ACR122, and 100,000 customized RFID tags were supplied to a global communications solution provider in Europe. The ACR122 readers and tags are used in a "consumer RFID + Web2.0" project in Europe for the provision of on-line entertainment. People who buy the readers and RFID tags can add "actions" to the tags by getting access to a community website with the "templates" of actions. An example of a template is that one can open a particular website by putting the associated tag on the reader. The tags can be placed on various objects as gifts, such as post cards or teddy bears. When recipients placed them on the readers, respective websites like the website of photo album will be opened automatically.

With the advantage to be the pioneer launching the world's first CCID-compliant NFC reader (a reader compliant to Microsoft's Integrated Circuit(s) Cards Interface Devices Standard) ahead of other competitors, the Group provided readers to various pilot projects in the world in this emerging new application of PC-linked contactless smart card readers.

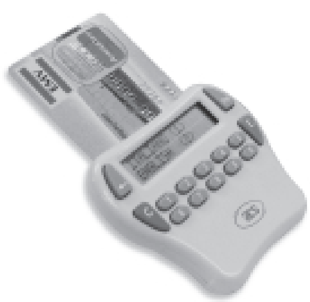
Main products introduced to the market in 2008

The Group continued its product development work in order to ensure that its product portfolio contains products that account for a good percentage of the annual sales.

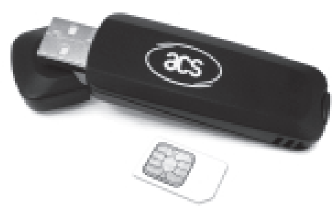
The Group launched in 2008 the smart card reader (ACR128) accepting both contact smart card and contactless smart card. With this new reader, users no longer need to use two readers to read two types of cards. It also launched a hand-held smart card reader which generates one-time use password (APG82). The device is meant mainly for banks for on-line banking tasks and for corporations that demand high security to access the Internet network for accessing confidential information, sending encrypted emails or carrying out transactions. The Group also launched in the year new versions of USB-token type of smart card readers inbuilt with flash memory (ACR100). The device acts as a smart reader and at the same time stores programs and confidential information. The industry and commercial department of Italy uses this device as "Business Keys" for their members for safe use of the Internet.



ACR128



APG82



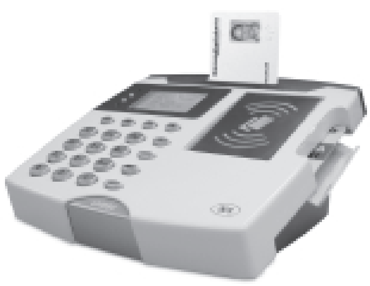
ACR100

MANAGEMENT DISCUSSION AND ANALYSIS

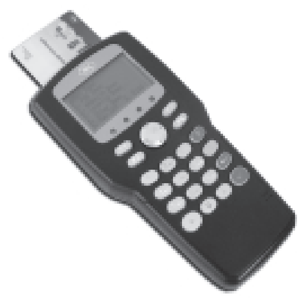
BUSINESS REVIEW *(continued)*

Main products being developed

In 2008, the Group was engaged in the development of three products using 32-bit micro-processors. The first product (eH880) is a reader developed based on the specification provided by the German government for the nation-wide German health card project. The second product is a reader to be mounted near gates and walls for physical access control. This reader is being developed for a global company based in USA. This reader entered into the final stage of preparation of prototypes in 2008 for tests within the USA-based company. The first pilot production is expected in the first quarter of 2009. The third reader (ACR880) is a portable reader for ID cards and other uses. It is entering into pilot production in 2009. The Group expects that all these products will be launched commercially in 2009.



eH880

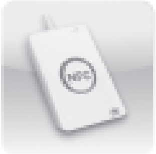


ACR880

Attending trade shows and giving speeches

In 2008, the Group participated in a total of ten smart card and security trade shows in Europe, Middle East, the Americas and Asia by setting up an exhibition booth there.

The Group's delegates gave speeches in some of these shows and the Group's engineering staff members gave trainings and lectures to customers and organizations in the world including trainings provided to The Chinese University of Hong Kong and a course on smart card technology in De La Salle University in the Philippines.


MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(continued)*

Awards in 2008

Advanced Card Systems Limited ("ACS"), the main operating subsidiary of the Group, stood out in the competition for the SMART prize, the highest accolade in the Chinese smart card industry. The event was sponsored jointly by China Information Industry Chamber of Commerce and China Software Industry Association and supervised by the State Leading Group Office of Golden Cards Projects Coordination. ACS was honored with "The Top Smart Card Reader Provider 2007". The award was presented to the Group in Shenzhen, China in the 10th International Smart Card and RFID Technology Exhibition and Purchase in May 2008.

The Group was honoured by the Committee for the Recognition of Patriotic Chinese Leaders to be a Patriotic Model Company. The Group's long term vision statement was carved on the stone of the Patriotic Wall built near the Great Wall in Beijing, China. The Government expressed intention to preserve and renovate the carving for the next seventy years.

Product certifications

Every year, the Group submits its products to different laboratories in the world in order to get them certified to be in compliance with global and national industry standards. In 2008, many certificates were obtained. For the first time in the Group's history, it had its PC-linked reader (ACR38) qualified for FIPS (Federal Information Processing Standards) compliance.

FIPS are publicly announced standards developed by the United States Federal Government for use by all non-military government agencies and by government contractors. These standards specify PIV (Personal Identity Verification) requirements for federal employees and contractors. With this approval, the ACR38 readers can be used in the US government sectors for the deployment in secure identification and authentication solutions.

Providing security solution for the Beijing Olympic Games

In 2008, the Beijing Olympic was a big event in the world. The Group had the honour to be invited to participate in the event. The Group provided smart cards, smart card readers and accompanying software to the World Olympians Association ("WOA") to secure its events in 2008 Beijing Olympics. In a press release the President of WOA Dick Fosbury said, "This is the very first time that we used smart cards for security authentication in all our events. I am completely satisfied that the ID system that we used at the 2008 Olympians Reunion Center ensured the integrity of our venue and enhanced the safety and security of our on-site guests."

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(continued)*

Enterprise management system empowered by smart cards and readers

The Group has been developing in the last years a web-based enterprise management system for internal use. Since the program uses the Internet extensively, the security of data will be a concern. The Group's knowledge in encryption and in using smart cards and related security products, such as finger print scanners, can be applied to enhance digital security. Also, the Group realizes that there is a market of Time and Attendance solutions for commercial firms and organizations. The Group's contactless readers and finger print readers will be appropriate to capture clock-in and clock-out records. The Group has a plan to launch the program to the commercial market in 2009.

PROSPECTS

The overall world market of smart cards and related security products which the Group develops and supplies is growing. Within the industry, the demands in different market segments change rapidly. For example, contactless cards are getting more popular comparing with contact cards. The Group is constantly introducing new products and adapting its marketing strategy to cope with the change of the market.

The present financial crisis and economic downturn will affect many types of business in the world. The Group has yet to determine how much the unprecedented economic situation will affect the Group. How big the impact will be is hard to forecast. However, the management believe that there will be new challenges.

A lot of the business done by the Group is generated by government initiated projects. If most of the governments of the various countries do not cancel or curtail their projects, the Group should be less affected. The Group will continue to monitor closely the progress of individual projects it is taking part in.

At 31 December 2008, the Group had no bank debt outstanding and the liquidity was good. The cash of HK$23.6 million at 31 December 2008 was by no means a big amount but the higher cash position compared with the figure of HK$13.8 million at 31 December 2007 would give the Group a bigger cushion to cope with a potential decline in business. It is too early to tell how the otherwise anticipated growing business would be affected in 2009. Two advantages the Group is envisioning will be the reduced raw material cost and the reduced tightness in the human resources market. The Group will take the opportunity to enroll talents to help the company grow. Owing to improved liquidity, better cash position, an expanded network of customers, better economies of scale and by better control of expenses, the management believe that the Group will be able to cope with the current and upcoming recession.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

At all times the Group maintains an adequate liquidity position. As at 31 December 2008, the Group's cash at banks and on hand amounted to HK$23.6 million (2007: HK$13.8 million) which included the pledged bank deposits of HK$0.9 million (2007: HK$2.0 million). The HK$0.9 million pledged bank deposits were to secure bank credit lines. At 31 December 2008, the credit lines offered by the banks were not utilized (2007: Nil).

The current ratio, being the ratio of current assets to current liabilities, was kept at 3.8 (2007: 4.0). Net asset value as at the year end date was HK$45.8 million (2007: HK$37.3 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 2008, the Group did not have any borrowings and, accordingly, the gearing ratio, being the total interest bearing debts over the total equity, was zero (2007: 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.

ACQUSITIONS 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 2008.

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 2008, the Group had pledged deposits of US$115,000 with a bank for getting banking facilities. Save as disclosed herein, the Group did not pledge any of its assets.

CONTINGENT LIABILITIES

As at 31 December 2008, the Company had outstanding corporate guarantee of HK$7 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.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2008, the Group had 127 full time employees. Staff costs amounted to HK$18.9 million (2007: HK$13.4 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

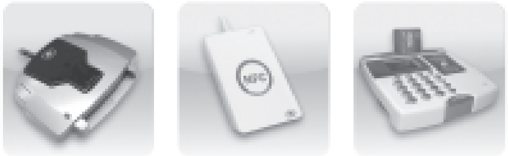
Mr. Denny Wong, aged 61, is the chairman and chief executive officer of the Company and the director of several subsidiaries of the Group. Mr. Wong founded Advanced Card Systems Limited ("ACS") in December 1995. In 1985, Mr. Wong founded his previous company, Advanced Electronics Limited, which distributed 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 50, 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 the director of several subsidiaries of the Group. Mr. Tan is responsible for the implementation of a technical sales and marketing programme for existing and prospective customers of 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 56, 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.



DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. YIP Chak Lam, Peter

Dr. Peter Yip, aged 58, 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 is widely acknowledged by peers as the main driving force of Hutchison Global Crossing Limited. He has pursued a career in university teaching in Singapore and Hong Kong, and in telecommunications between 1980 and 2009. Dr Yip is now the Executive Vice President of Pro-Health (China) Co. Ltd. in Beijing. Dr. Yip is a Chartered Engineer and a fellow of the Institution of Engineering and Technology (FIET) of the United Kingdom. He has had one book and over 40 technical papers published.

Mr. YU Man Woon

Mr. Yu Man Woon, aged 58, 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 was previously an independent non-executive director of Hantec Investment Holdings Limited ("Hantec") (later renamed as Cinda International Holdings Limited) which is listed on the Main Board of the Stock Exchange of Hong Kong Limited. He has resigned as the independent non-executive director of Hantec on 23 December 2008.

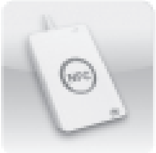
Mr. WONG Yick Man, Francis

Mr. Francis Wong, aged 55, was appointed as an independent non-executive director on 1 June 2006. Mr. Wong is a professional accountant and business consultant. He was the chief executive officer of a Hong Kong listed company and founder of several prominent telecom businesses including New Global Telecom, a US VOIP carrier. He is currently Managing Director of Infobiz Limited, a private direct investment group. Mr. Wong is a graduate of The University of Hong Kong and a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

SENIOR MANAGEMENT

Mr. CHU Chi Lok, Patrick

Mr. Patrick Chu, aged 37, joined the Group in May 1997 and serves the Group as Engineering Manager since January 2006. Mr. Chu is responsible for leading the engineering team in the development of new products and customisation of existing products according to the requirements from the customers. From May 1997 until December 2005, Mr. Chu held various engineering positions with the Group. Mr. Chu obtained a bachelor of engineering degree of Electrical and Electronic Engineering from The University of Hong Kong in 1993 and a master of science degree of Electronic Commerce (Business) from The Chinese University of Hong Kong in 2003.


DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT *(continued)*

Ms. LAI Yuen Yee, Elsie

Ms. Elsie Lai, aged 44, is the Senior Manager of Product Marketing Department, leading a team to focus on product management and marketing functions of ACS. She worked for Orient Overseas Container Line Ltd. for nine years. She joined the Group in 2000 bringing with her solid experience in sales and marketing activities of the container transport services. She obtained a bachelor of business administration degree from the University of East Asia, Macau.

Mr. LEE Kam Wing, Eric

Mr. Eric Lee, aged 45, joined the Group as full-time employee assuming the role of Project Manager since March 2003 and Engineering Manager since 2006. Mr. Lee is responsible for the development of the 32-bit product platform, leading a team of engineers in Hong Kong and Shenzhen. Previously, Mr. Lee worked for Hypercom Asia Limited as Product Marketing Director and Philips Consumer Communications Limited as Software Chief Engineer. Such experience gives Mr. Lee the knowledge of transaction systems as well as various production related activities. Mr. Lee obtained a higher diploma in Applied Science and professional diploma in Information Technology in Hong Kong Polytechnic in 1985 and 1990.

Mr. LEUNG Tin Chak, Gilbert

Mr. Gilbert Leung, aged 33, joined the Group in January 2002 as a Technical Marketing Engineer and was mainly responsible for handling activities of respective product lines. He became the Sales Director in January 2007. Mr. Leung is now responsible for sales and marketing duties for existing and prospective customers of ACS. He has been involved actively in promoting the products of ACS, innovating smart card technologies in the market, identifying and exploring new market opportunities. Mr. Leung holds the bachelor and master of philosophy degree in Industrial Engineering and Engineering Management from The Hong Kong University of Science and Technology.

Ms. WONG Mei Ki, Maggie

Ms. Maggie Wong, aged 34, 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.

CORPORATE GOVERNANCE REPORT

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 20 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 2008.

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 16 to 17 of this Annual Report.

During the year ended 31 December 2008, 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 held four meetings during the year ended 31 December 2008. 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)*	3/4
	Tan Keng Boon	3/4
	Tsui Kam Ling, Alice	3/4
Independent non-executive directors	Yip Chak Lam, Peter	3/4
	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. 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. Their appointments were further renewed for two years commencing from 1 June 2008.

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 13 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 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 2008, the fee payable to the auditors in respect of audit services amounted to HK$280,000.

AUDIT COMMITTEE

The audit committee is primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of that auditors; 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 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	3/4
	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 2008:

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

(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 37 to 38 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.

CORPORATE GOVERNANCE REPORT

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 2008 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 2008 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 2008.

PRINCIPAL ACTIVITIES

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

The 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 6 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	28%	—
Five largest customers in aggregate	48%	—
The largest supplier	—	22%
Five largest suppliers in aggregate	—	52%

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.

RESULTS AND APPROPRIATIONS

The profit of the Group for the year ended 31 December 2008 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 39 to 99.

The directors have recommended the payment of a dividend of HK0.8 cents (2007: HK0.4 cents) per share for the year ended 31 December 2008. Subject to the approval by the shareholders at the forthcoming annual general meeting, the dividend will be paid to shareholders whose names appear on the register of members of the Company on 8 May 2009.

REPORT OF THE DIRECTORS

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Monday, 4 May 2009 to Friday, 8 May 2009, 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 Thursday, 30 April 2009.

RESERVES

Profit for the year of HK$9,704,000 (2007: HK$4,306,000) 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 26 to the financial statements.

CHARITABLE DONATIONS

During the year, the Group made charitable donations of HK$50,000.

PLANT AND EQUIPMENT

Details of the movements in plant and equipment of the Group are set out in note 14 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 24 and 25 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, Mr. Tan Keng Boon and Mr. Yu Man Woon 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 have been renewed for further two years from 27 October 2006 to 26 October 2008 and then for further two years from 27 October 2008 to 26 October 2010. 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. Their appointments were further renewed for two years commencing from 1 June 2008 to 31 May 2010.

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 2008, 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 2008
Mr. Wong Yiu Chu, Denny *(Note 2)*	80,768,000	42,114,522	—	—	122,882,522	43.61%
Ms. Tsui Kam Ling, Alice *(Note 3)*	42,114,522	80,768,000	—	—	122,882,522	43.61%
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 42,114,522 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 42,114,522 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 2008, 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.

REPORT OF THE DIRECTORS

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 20 March 2009.

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

An 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 2008, 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 2008 was HK$0.27) 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 2008	Granted during the year	Exercised during the year	Lapsed during the year	Balance as at 31 December 2008	Period during which the options are exercisable	Exercise price per share	Percentage of the Company's issued share capital as at 31 December 2008
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 since 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 vested and were exercisable since 10 May 2004;

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

   (c) the remaining one-third of the options vested and were exercisable since 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 2008 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 2008
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%
Mr. Tjio Kay Loen *(Note 3)*	Beneficial Owner and Other	26,200,000 shares (L)	9.30%
Warren Securities Limited	Beneficial Owner	14,200,000 shares (L)	5.04%

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(continued)*

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).

3 Of these shares, 7,400,000 shares are held by Mr. Tjio Kay Loen personally, 14,800,000 shares, 1,000,000 shares and 3,000,000 shares are held by Warren Securities Limited (a company which is owned as to 30% by Mr. Tjio Kay Loen), Raffles Capital Pte Limited (a company which is owned as to 56% by Mr. Tjio Kay Loen) and Farina Limited (a company which is owned as to 60% by Mr. Tjio Kay Loen) respectively. Mr. Tjio Lay Loen is taken to be interested in these shares under the SFO.

Save as disclosed above, as at 31 December 2008 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.

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.

PRE-EMPTIVE RIGHTS

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

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 100 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 retirement benefit scheme under the Mandatory Provident Fund Schemes Ordinance (the "MPF Scheme"), for those 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 subsidiaries in the PRC have participated in a central pension scheme operated by the local municipal government (the "Scheme"), whereby the PRC subsidiaries are 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 Philippines law. Pursuant to the rules of the SSS Scheme, the Group and the employees are required to make monthly contributions to the scheme, 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$642,000 (2007: HK$465,000).

REPORT OF THE DIRECTORS

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 2008.

AUDITORS

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, 20 March 2009

INDEPENDENT AUDITORS' REPORT

Grant Thornton
均富

Member of Grant Thornton International Ltd

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 39 to 99, which comprise the consolidated and company balance sheets as at 31 December 2008, 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.

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.

INDEPENDENT AUDITORS' REPORT

Grant Thornton
均富

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 2008 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
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

20 March 2009

CONSOLIDATED INCOME STATEMENT

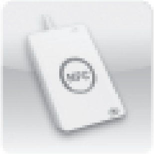
For the year ended 31 December 2008

	Notes	**2008** *HK$'000*	2007 *HK$'000*
Revenue	5	**96,094**	59,326
Cost of sales		**(51,625)**	(29,678)
Gross profit		**44,469**	29,648
Other income	5	**500**	475
Administrative expenses		**(14,435)**	(13,029)
Research and development expenses		**(10,419)**	(6,772)
Selling and distribution costs		**(7,198)**	(3,714)
Operating profit		**12,917**	6,608
Finance costs		**(387)**	(320)
Profit before income tax	7	**12,530**	6,288
Income tax expense	8	**(2,826)**	(1,982)
Profit for the year	9	**9,704**	4,306
Dividends	10	**2,254**	1,127
Earnings per share for profit attributable to the equity holders of the Company during the year	11		
Basic		**HK3.44 cents**	HK1.53 cents
Diluted		**HK3.43 cents**	HK1.52 cents

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Notes	**2008**	2007
		HK$'000	*HK$'000*
ASSETS AND LIABILITIES			
Non-current assets			
Plant and equipment	14	**3,540**	2,580
Development costs	16	**9,238**	9,215
Deferred tax assets	17	**—**	780
		12,778	12,575
Current assets			
Inventories	18	**12,129**	10,179
Trade and other receivables, deposits paid and prepayments	19	**9,607**	9,072
Held-to-maturity financial assets	20	**19**	21
Pledged bank deposits	21	**897**	2,005
Cash and cash equivalents	22	**22,724**	11,771
		45,376	33,048
Current liabilities			
Trade payables, deposits received and accruals	23	**10,927**	8,351
Provision for taxation		**1,157**	—
		12,084	8,351
Net current assets		**33,292**	24,697
Total assets less current liabilities		**46,070**	37,272
Non-current liabilities			
Deferred tax liabilities	17	**258**	—
Net assets		**45,812**	37,272


CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Notes	**2008** *HK$'000*	2007 *HK$'000*
EQUITY ATTRIBUTABLE TO THE COMPANY'S EQUITY HOLDERS			
Share capital	24	**28,180**	28,180
Reserves	26	**17,632**	9,092
Total equity		**45,812**	37,272

WONG Yiu Chu, Denny
Director

TSUI Kam Ling, Alice
Director

BALANCE SHEET

As at 31 December 2008

	Notes	**2008**	2007
		HK$'000	*HK$'000*
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	15	**14,004**	14,004
Current assets			
Other receivables and prepayments	19	**198**	207
Amounts due from subsidiaries	27	**21,420**	29,036
Cash and cash equivalents	22	**8,904**	3,328
		30,522	32,571
Current liabilities			
Accruals	23	**240**	245
Net current assets		**30,282**	32,326
Net assets		**44,286**	46,330
EQUITY ATTRIBUTABLE TO THE COMPANY'S EQUITY HOLDERS			
Share capital	24	**28,180**	28,180
Reserves	26	**16,106**	18,150
Total equity		**44,286**	46,330

WONG Yiu Chu, Denny
Director

TSUI Kam Ling, Alice
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Cash flows from operating activities			
Profit before income tax		12,530	6,288
Adjustments for:			
Depreciation	7.2	1,469	1,164
Amortisation of development costs	7.2	2,272	2,317
Finance costs	7.1	387	320
Write-back of impairment of trade receivables	7.2	—	(10)
(Write-back)/Provision for inventories	7.2	(83)	49
Impairment of trade receivables	7.2	49	35
Bad debts written off	7.2	53	84
Interest income	5	(188)	(351)
Loss on disposals of plant and equipment	7.2	56	7
Operating profit before working capital changes		16,545	9,903
Increase in inventories		(1,867)	(1,628)
Increase in trade and other receivables, deposits paid and prepayments		(637)	(2,430)
Increase in trade payables, deposits received and accruals		2,576	3,879
Cash generated from operations		16,617	9,724
Income taxes paid		(631)	—
Net cash from operating activities		15,986	9,724

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	Notes	**2008**	2007
		HK$'000	*HK$'000*
Cash flows from investing activities			
Purchase of plant and equipment		**(2,486)**	(1,820)
Proceeds from disposals of plant and equipment		**1**	1
Proceeds from disposals of / (Payments to acquire) held-to-maturity financial assets		**2**	(4)
Development costs capitalised		**(2,295)**	(2,139)
Interest received		**188**	353
Decrease in pledged bank deposits		**1,108**	686
Net cash used in investing activities		**(3,482)**	(2,923)
Cash flows from financing activities			
Dividend paid		**(1,127)**	—
Finance costs paid		**(387)**	(320)
Net cash used in financing activities		**(1,514)**	(320)
Net increase in cash and cash equivalents		**10,990**	6,481
Cash and cash equivalents at 1 January		**11,771**	5,240
Effect of foreign exchange rates, net		**(37)**	50
Cash and cash equivalents at 31 December		**22,724**	11,771

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Share capital *HK$'000*	Share premium *HK$'000*	Merger reserve *HK$'000*	Translation reserve *HK$'000*	Accumulated losses *HK$'000*	Proposed dividend *HK$'000*	Total *HK$'000*
At 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 10)*	—	(1,127)	—	—	—	1,127	—
At 31 December 2007 and 1 January 2008	28,180	23,206	4,496	50	(19,787)	1,127	37,272
Profit for the year	—	—	—	—	9,704	—	9,704
Translation differences recognised directly in equity	—	—	—	(37)	—	—	(37)
Total recognised income and expense for the year	—	—	—	(37)	9,704	—	9,667
2007 Dividend paid	—	—	—	—	—	(1,127)	(1,127)
Proposed dividend *(note 10)*	—	(2,254)	—	—	—	2,254	—
At 31 December 2008	**28,180**	**20,952***	**4,496***	**13***	**(10,083)***	**2,254***	**45,812**

* The aggregated amount of the above balances of HK$17,632,000 (2007: HK$9,092,000) represented the reserves in the consolidated balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

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 (collectively referred to as the "Group" hereinafter) 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 15 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

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

The financial statements on pages 39 to 99 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 ("HKASs") and Interpretations ("Ints") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements also 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 2008 were approved for issue by the board of directors on 20 March 2009.

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 (the "new HKFRSs") issued by the HKICPA, which are relevant and effective for the Group's financial statements for the annual period beginning on 1 January 2008.

HKAS 39 (Amendment)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements

The new HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented. Accordingly, no prior period adjustment is required.

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

At the date of authorisation of these financial statements, the following new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

HKAS 1 (Revised)	Presentation of Financial Statements [1]
HKAS 23 (Revised)	Borrowing Costs [1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements [2]
HKAS 32, HKAS 39 & HKFRS 7 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation [1]
HKAS 39 (Amendment)	Eligible Hedged Items [2]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards [2]
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or an Associate [1]
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations [1]
HKFRS 3 (Revised)	Business Combinations [2]
HKFRS 7 (Amendment)	Improving Disclosure about Financial Instruments [1]
HKFRS 8	Operating Segments [1]
HK(IFRIC) – Int 13	Customer Loyalty Programmes [3]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate [1]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation [4]
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners [2]
HK(IFRIC) – Int 18	Transfers of Assets from Customers [5]

Various – Annual Improvements to HKFRSs 2008 [6]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 October 2008
5 Effective for transfers of assets from customers received on or after 1 July 2009
6 Generally effective for annual periods beginning on or after 1 January 2009 unless otherwise stated in the specific HKFRSs

The directors of the Company anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement.

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

HKAS 1 (Revised) Presentation of Financial Statements

This new issue is expected to materially change the presentation of the Group's financial statements. These amendments affect the presentation of owner changes in equity and introduce a statement of comprehensive income. The Group will have the option of presenting items of income and expenses and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). These amendments do not affect the financial position or results of the Group but will give rise to additional disclosures.

HKFRS 2 (Amendment) Share-based Payment – Vesting Conditions and Cancellations

This amendment related to vesting conditions and cancellations. One of the Group's current share-based payment schemes is affected by the amendments. Management does not consider the amendments to have an impact on the Group's accounting polices.

HKFRS 8 Operating Segments

This standard replaces HKAS 14 Segment Reporting. The accounting policy for identifying segments could be based on internal management reporting information that is regularly reviewed by the chief operating decision maker. In contrast HKAS 14 requires the Group to identify two sets of segments (business and geographical) based on the risks and rewards of separating segments. Management anticipate that the adoption of this standard will not affect the identified operating segments of the Group. The new standard will also require a different format of disclosures which could be based on information provided internally to the chief operating decision maker.

HKAS 27 (Revised) Consolidated and Separate Financial Statements

The revised standard introduces changes to the accounting requirements for the loss of control of a subsidiary and for changes in the Group's interest in subsidiaries. Management does not expect the standard would have a material impact on the Group's financial statements.

The directors are currently assessing the impact of other new and amended HKFRSs upon initial application. So far, the directors have preliminarily concluded that the initial application of these HKFRSs is unlikely to have a significant impact on the Group's results and financial position.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 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 under the historical cost convention. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in the 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.

Business combinations (other than for combining entities under common control) are accounted for by applying the purchase method. This involves the estimation of fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

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

3.3 Subsidiaries *(continued)*

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.

3.4 Foreign currency translation

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 in terms of 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 rates 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.5 Revenue recognition

Revenue comprises the fair value for the sale of goods and 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 service income is 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.

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

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 development phase of the 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) there is intention to complete the intangible asset and use or sell it;

(iii) the Group's ability to use or sell the intangible asset is demonstrated;

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

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

(vi) the expenditure attributable to the intangible asset can be reliably measured.

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

3.6 Research and development costs *(continued)*

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, these are carried at cost less accumulated amortisation and impairment losses. Development costs capitalised are amortised to the income statement on the straight-line method over their estimated useful lives of four years. Development costs are tested for impairment 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 accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use.

Depreciation is provided using the straight-line method to write off the cost over their estimated useful lives as the follows:

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

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

The gain or loss arising on retirement or disposal is determined as the difference between the net sales proceeds and the carrying amount of the 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.8 Impairment of non-financial 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

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases. 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 the straight-line method over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in 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, other than interests in subsidiaries are classified into held-to-maturity investments and loans and receivables.

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 asset.

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

3.10 Financial assets *(continued)*

(i) Held-to-maturity investments

These 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

These 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, the Group's financial assets are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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

3.10 Financial assets *(continued)*

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.

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 are carried at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method, and comprises raw materials, supplies, purchased goods and all expenses directly attributable to the manufacturing process as well as suitable portions of the related production overheads, based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business less the applicable selling expenses.

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

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 income, 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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value and which form an integral part of the Group's cash management.

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 retirement benefit scheme under the Mandatory Provident Fund Schemes Ordinance (the "MPF Scheme"), for those 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 or the maximum mandatory contribution as required by the MPF scheme 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.

Pursuant to the relevant regulations of the Peoples' Republic of China (the "PRC"), the employees of the subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are 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 Philippines 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, 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.

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

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

Short term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

3.16 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 (for example, profitability and sales growth targets).

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, 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 accumulated losses.

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

3.17 Financial liabilities

The Group's financial liabilities are mainly 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 expires.

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.

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

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 Borrowing

All borrowing costs are expensed as incurred.

3.21 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 and mainly exclude held-to-maturity financial assets. Segment liabilities comprise operating liabilities and exclude items such as provision for taxation.

Capital expenditure is the total cost incurred during the year including 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.22 Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or its parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

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

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

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.

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

Critical accounting estimates and assumptions

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.

4.1 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.

4.2 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.

4.3 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.

Critical judgement in applying the entity's accounting policies

4.4 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 is continuously monitored by the Group's management.

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:

	2008 *HK$'000*	2007 *HK$'000*
Revenue		
Sale of smart card products, software and hardware	**93,998**	58,188
Smart card related services	**2,096**	1,138
	96,094	59,326

	2008 *HK$'000*	2007 *HK$'000*
Other income		
Forfeiture of deposits	**37**	115
Interest income on financial assets stated at amortised cost	**188**	351
Sundry income	**275**	9
	500	475

6. SEGMENT INFORMATION

Primary reporting format – business segments

During the year, the Group was principally engaged into two main business segments:

— development, sale and distribution of smart card products, software and hardware;

— provision of smart card related services.

2008

	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	93,998	2,096	96,094
Segment results and operating profit	11,367	1,550	12,917
Finance costs			(387)
Profit before income tax			12,530
Income tax expense			(2,826)
Profit for the year			9,704
Capital expenditure	4,781	—	4,781
Depreciation and amortisation	3,741	—	3,741
Non-cash expenses other than depreciation and amortisation	19	—	19

6. SEGMENT INFORMATION *(continued)*

Primary reporting format – business segments *(continued)*

2007

	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	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

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.

6. SEGMENT INFORMATION *(continued)*

Secondary reporting format – geographical segments

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

Segment revenue by geographical markets:

	2008	2007
	HK$'000	*HK$'000*
The Americas	**7,433**	5,551
Middle East and Africa	**7,466**	8,691
Asia Pacific	**23,667**	14,867
Europe	**57,528**	30,217
	96,094	59,326

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.

7. PROFIT BEFORE INCOME TAX

	2008	2007
	HK$'000	*HK$'000*
Profit before income tax is arrived at after charging/(crediting):		
7.1 Finance costs:		
Interest on bank borrowings wholly repayable within five years	**117**	81
Bank charges	**270**	239
	387	320

7. PROFIT BEFORE INCOME TAX *(continued)*

	2008 *HK$'000*	2007 *HK$'000*
7.2 Other items:		
Amortisation of development costs	2,272	2,317
Auditors' remuneration	280	270
Cost of inventories recognised as expense	50,827	29,084
– including (write-back)/provision for inventories (note 18)	(83)	49
Depreciation	1,469	1,164
Loss on disposals of plant and equipment	56	7
Impairment of trade receivables	49	35
Write-back of impairment of trade receivables	—	(10)
Bad debts written off	53	84
Net foreign exchange loss	144	85
Total research and development expenses	10,442	6,594
Less: Amount capitalised as development costs (note 16)	(2,295)	(2,139)
Add: Amortisation of development costs	2,272	2,317
Research and development expenses charged to income statement	10,419	6,772
Operating lease charges on land and buildings	1,927	1,569
Less: Amount included in research and development costs	(86)	(138)
	1,841	1,431

8. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the year. No provision for Hong Kong profits tax was made during the year ended 31 December 2007 as a subsidiary of the Group had losses brought forward from previous years to offset against its 2007 assessable profits and the Company and other subsidiaries had sustained losses for taxation purposes.

Overseas tax refers to the Minimum Corporate Income Tax ("MCIT") in the Philippines. MCIT has been provided at 2% on gross income incurred in the Philippines during the year (2007: Nil). No provision for overseas tax in other locations including PRC, Canada and Germany has been made as no assessable profits arose from the operations in these locations (2007: Nil).

	2008	2007
	HK$'000	*HK$'000*
Current tax – tax for the year		
– Hong Kong	1,715	—
– Overseas	73	—
	1,788	—
Deferred tax		
Current year	1,038	1,982
Total income tax expense	2,826	1,982

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

	2008	2007
	HK$'000	*HK$'000*
Profit before income tax	12,530	6,288
Tax on profit before income tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	2,119	1,136
Tax effect of non-deductible expenses	523	670
Tax effect of non-taxable revenue	(18)	(42)
Tax effect of unused tax losses not recognised	162	214
Tax effect of prior years' deferred tax recognised during the year	40	4
Income tax expense	2,826	1,982

The Hong Kong SAR Government enacted a reduction in the profits tax rate from 17.5% to 16.5% with effect from the year of assessment 2008/2009. Accordingly, the relevant current and deferred tax liabilities have been calculated using the new tax rate of 16.5%.

9. PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

Of the consolidated profit for the year of HK$9,704,000 (2007: HK$4,306,000), a loss of HK$917,000 (2007: HK$866,000) has been dealt with in the financial statements of the Company.

10. DIVIDENDS

Dividends attributable to the year:

	2008	2007
	HK$'000	*HK$'000*
Dividend of HK0.8 cents (2007: HK0.4 cents) per share	**2,254**	1,127

The dividend proposed after the balance sheet date 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 2008.

Dividends attributable to the previous financial year, approved and paid during the year:

	2008	2007
	HK$'000	*HK$'000*
Dividend in respect of the previous financial year, of HK0.4 cents per share (2007: Nil)	**1,127**	—

11. EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY DURING THE YEAR

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

	2008 *HK$'000*	2007 *HK$'000*
Profit for the year for the purposes of calculating basic and diluted earnings per share	**9,704**	4,306

	2008 *'000*	2007 *'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	**281,800**	281,800
Effect of dilutive potential ordinary shares relating to outstanding share options	**1,170**	990
Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share	**282,970**	282,790

12. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	2008 *HK$'000*	2007 *HK$'000*
Salaries and benefits	**19,695**	14,742
Pension costs – defined contribution plans	**642**	465
Total staff costs	**20,337**	15,207
Less: Amounts capitalised as development costs	**(1,405)**	(1,829)
Staff costs charged to income statement	**18,932**	13,378

13. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

13.1 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*
2008					
Executive directors					
Mr Wong Yiu Chu, Denny	—	1,392	92	12	1,496
Mr Tan Keng Boon	—	737	61	12	810
Ms Tsui Kam Ling, Alice	—	737	61	12	810
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	2,866	214	36	3,476

13. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

13.1 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*
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

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

13. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

13.2 Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included three (2007: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2007: two) individuals during the year are as follows:

	2008	2007
	HK$'000	*HK$'000*
Basic salaries, housing and other allowances and benefits in kind	**1,025**	924
Bonuses	**80**	96
Contributions to defined contribution plans	**24**	24
	1,129	1,044

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

	2008	2007
Nil - HK$1,000,000	**2**	2

No emoluments were paid by the Group to the directors and the remaining two (2007: two) highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2007: Nil).

14. PLANT AND EQUIPMENT – GROUP

	Leasehold improvements *HK$'000*	Furniture and fixtures *HK$'000*	Computer and office equipment *HK$'000*	Moulds *HK$'000*	Total *HK$'000*
At 1 January 2007					
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
Year ended 31 December 2008					
Opening net book amount	**636**	**273**	**1,155**	**516**	**2,580**
Additions	**405**	**214**	**1,424**	**443**	**2,486**
Disposal	**—**	**(3)**	**(4)**	**(50)**	**(57)**
Depreciation	**(372)**	**(125)**	**(678)**	**(294)**	**(1,469)**
Closing net book amount	**669**	**359**	**1,897**	**615**	**3,540**
At 31 December 2008					
Cost	**1,214**	**756**	**5,096**	**2,150**	**9,216**
Accumulated depreciation	**(545)**	**(397)**	**(3,199)**	**(1,535)**	**(5,676)**
Net book amount	**669**	**359**	**1,897**	**615**	**3,540**

15. INTERESTS IN SUBSIDIARIES – COMPANY

	2008 *HK$'000*	2007 *HK$'000*
Unlisted shares, at cost	**14,004**	14,004

Particulars of the subsidiaries at 31 December 2008 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		Principal activities and place of operations
			Directly	Indirectly	
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
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

15. INTERESTS IN SUBSIDIARIES – 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 Directly	Indirectly	Principal activities and place of operations
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$7 million (2007: HK$4 million)	—	100%	Development, sale and distribution of smart card products, software and hardware and the provision of smart card related services in the PRC
Logyi Limited	The PRC, wholly foreign owned enterprise	HK$1 million	—	100%	Development of smart card products, software and hardware and the provision of smart card related services in the PRC

15. INTERESTS IN SUBSIDIARIES – 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 Directly	Indirectly	Principal activities and place of operations
Teczo Limited	Hong Kong, limited liability company	1 ordinary share of HK$1 each	100%	—	Investment holding
Teczo.com, Limited	Hong Kong, limited liability company	1 ordinary share of HK$1 each	—	100%	Development and supply of on-line enterprise management solutions

16. DEVELOPMENT COSTS – GROUP

	2008 HK$'000	2007 HK$'000
Carrying amount at 1 January	**9,215**	9,393
Capitalised during the year	**2,295**	2,139
Amortisation charge	**(2,272)**	(2,317)
Carrying amount at 31 December	**9,238**	9,215
At 31 December		
Gross carrying amount	**26,411**	24,116
Accumulated amortisation and impairment losses	**(17,173)**	(14,901)
Net carrying amount	**9,238**	9,215

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

17. DEFERRED TAX – GROUP

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 16.5% (2007: 17.5%).

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

	Accelerated tax depreciation	Tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2007	(178)	2,940	2,762
Charged to the income statement	(63)	(1,919)	(1,982)
At 31 December 2007 and 1 January 2008	(241)	1,021	780
Charged to the income statement	(17)	(1,021)	(1,038)
At 31 December 2008	**(258)**	**—**	**(258)**

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.

The Group has unrecognised tax losses of HK$4,735,000 (2007: HK$3,883,000) to carry forward against future taxable income. Tax losses amounted to HK$4,735,000 (2007: HK$3,883,000) in the PRC will be expired at various dates up to and including 2013 under the current tax legislation.

18. INVENTORIES – GROUP

	2008	2007
	HK$'000	*HK$'000*
Raw materials	**8,969**	8,242
Work in progress	**250**	118
Finished goods	**2,910**	1,819
	12,129	10,179

During the year ended 31 December 2008, the Group reversed a provision HK$83,000 (2007: write off of HK$49,000) being part of inventory write down made in previous years that was subsequently not required because the obsolete stock has been used or disposed. The amount reversed has been included in "Cost of sales" in the consolidated income statement.

19. TRADE AND OTHER RECEIVABLES, DEPOSITS PAID AND PREPAYMENTS

	Group		Company	
	2008	2007	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	**7,970**	7,539	**—**	—
Less: Impairment of receivables	**—**	(477)	**—**	—
Trade receivables – net	**7,970**	7,062	**—**	—
Other receivables	**332**	256	**1**	8
Deposits paid	**675**	657	**—**	—
Prepayments	**630**	1,097	**197**	199
	9,607	9,072	**198**	207

As at 31 December 2008, the amounts of other receivables, deposits paid and prepayments of the Group expected to be recovered after more than one year are HK$816,000 (2007: HK$583,000).

The directors of the Company consider that the fair values of trade receivables are not materially different from their carrying amounts because of the short maturity period on their inception.

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

Customers are generally granted credit terms of 30 to 60 days. As at 31 December 2008, ageing analysis of net trade receivables, based on invoice dates, was as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
0 - 30 days	**3,821**	4,829
31 - 60 days	**3,357**	2,010
61 - 90 days	**569**	19
Over 90 days	**223**	204
	7,970	7,062

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:

	Group	
	2008	2007
	HK$'000	*HK$'000*
At 1 January	**477**	1,072
Impairment loss and allowances charged to income statement	**49**	35
Amount written off during the year	**(526)**	(620)
Write-back of impairment of trade receivables	**—**	(10)
At 31 December	**—**	477

Ageing analysis of impaired trade receivables was as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
Over 120 days	**49**	35

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.

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

The Group did not hold any collateral as security or other credit enhancements over the impaired trade receivables, whether determined on an individual or collective basis.

Ageing analysis of the Group's trade receivables that were past due as at the balance sheet date but not impaired, based on due date, was as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
Neither past due nor impaired	**5,993**	6,106
1 - 90 days past due	**1,855**	786
91 - 180 days past due	**121**	12
Over 180 days past due	**1**	158
	7,970	7,062

As at 31 December 2008, trade receivables of HK$5,993,000 (2007: HK$6,106,000) was neither past due nor impaired. These related to a wide range of customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired related to parties that had a good track record of credit with the Group. Based on past credit history, management believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered to be fully recoverable.

20. HELD-TO-MATURITY FINANCIAL ASSETS – GROUP

	2008 *HK$'000*	2007 *HK$'000*
Treasury bills, at amortised cost	19	21

Treasury bills in the series of PIBL1208F124 have a fixed yield of 5.9% (2007: 5%) and mature on 10 June 2009 (2007: 13 August 2008). Interest of HK$860 (2007: HK$356) was received during the year.

The directors of the Company consider that the fair value of held-to-maturity financial assets is not materially different from their carrying amount because of the short maturity period on their inception.

21. PLEDGED BANK DEPOSITS – GROUP

As at 31 December 2008, the Group pledged deposits of HK$897,000 (2007: HK$2,005,000) to a bank (2007: two banks) to secure the bank credit lines.

The interest of the deposits was calculated in accordance to deposit rates. The effective interest rates during the year ranged from 0.1% to 4.19% (2007: 4.05% to 5.06%). They have a maturity of one month.

The directors of the Company consider that the fair value of the pledged bank deposits is not materially different from their carrying amount because of the short maturity period on their inception.

22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Short-term bank deposits	**4,914**	2,730	**3,900**	2,730
Cash at bank and in hand	**17,810**	9,041	**5,004**	598
	22,724	11,771	**8,904**	3,328

The interest of short-term bank deposits was calculated in accordance with their deposit rates. The effective interest rates during the year ranged between 0.04% and 4.63% (2007: between 4.06% and 5.21%). They have a maturity of one month (2007: seven days to one month) and are eligible for immediate cancellation without receiving any interest for the last deposit period.

The directors of the Company consider that the fair value of the short-term bank deposits is not materially different from their carrying amount because of the short maturity period on their inception.

Included in bank and cash balances of the Group is HK$637,000 (2007: HK$1,123,000) of bank balances denominated in Renminbi ("RMB") placed with the banks in the PRC. RMB is not a freely convertible currency. Under the Mainland China's Foreign Exchange Control Regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

23. TRADE PAYABLES, DEPOSITS RECEIVED AND ACCRUALS

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables	**6,429**	5,075	**—**	—
Deposits received	**729**	600	**—**	—
Accruals	**3,769**	2,676	**240**	245
	10,927	8,351	**240**	245

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

The Group is generally granted by its suppliers credit periods for 30 days. As at 31 December 2008, ageing analysis of trade payables, based on invoice dates, was as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
0 - 30 days	**3,506**	2,635
31 - 60 days	**2,663**	2,436
61 - 90 days	**—**	4
Over 90 days	**260**	—
	6,429	5,075

All amounts are short term and hence the carrying values of trade payables, deposits received and accruals are considered to be a reasonable approximation of fair value.

24. SHARE CAPITAL – GROUP AND COMPANY

	2008		2007	
	Number of shares		Number of shares	
	'000	***HK$'000***	*'000*	*HK$'000*
Authorised :				
Ordinary shares of HK$0.10 each				
At 31 December	**1,000,000**	**100,000**	1,000,000	100,000
Issued and fully paid:				
Ordinary shares of HK$0.10 each				
At 31 December	**281,800**	**28,180**	281,800	28,180

25. SHARE-BASED EMPLOYEE COMPENSATION – COMPANY

Pursuant to resolutions of the shareholders passed on 27 October 2003, a new share option scheme (the "New Scheme") was adopted to replace the share option scheme dated 25 July 2000 (the "Old Scheme"). Options were granted under the New 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 Old Scheme. Accordingly, the Company cancelled the options to subscribe for an aggregate of 816,250 ordinary shares of US$0.10 each under the Old Scheme and issued options under the New 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.

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

The New Scheme 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 New Scheme shall remain in full force and effect.

The options outstanding at 31 December 2008 had an exercise price of HK$0.09 or HK$0.24 (2007: HK$0.09 or HK$0.24) and a weighted average remaining contractual life of 2.6 years (2007: 3.6 years).

At 31 December 2008, the total number of shares available for issue under the New Scheme was 2,263,245 (2007: 2,263,245), representing approximately 0.8% (2007: 0.8%) of the issued share capital of the Company at that date.

25. SHARE-BASED EMPLOYEE COMPENSATION – COMPANY *(continued)*

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

Year ended 31 December 2008

Grantees	Date granted	Balance as at 1 January 2008	Number of share options Granted during the year	Exercised during the year	Lapsed during the year	Balance as at 31 December 2008	Period during which the options are exercisable	Exercise price per share	Percentage of the Company's issued share capital as at 31 December 2008
Consultants & employees	27 October 2003	1,361,607	—	—	—	1,361,607 *(Note1)*	10 May 2004 to 24 July 2010	HK$0.09	0.48%
Employees	27 October 2003	862	—	—	—	862 *(Note1)*	10 May 2004 to 27 December 2010	HK$0.09	0.01%
	27 October 2003	900,776	—	—	—	900,776 *(Note2)*	10 May 2004 to 20 January 2013	HK$0.24	0.32%
		2,263,245	—	—	—	2,263,245			

Year ended 31 December 2007

Grantees	Date granted	Balance as at 1 January 2007	Number of share options 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 *(Note1)*	10 May 2004 to 24 July 2010	HK$0.09	0.48%
Employees	27 October 2003	862	—	—	—	862 *(Note1)*	10 May 2004 to 27 December 2010	HK$0.09	0.01%
	27 October 2003	900,776	—	—	—	900,776 *(Note2)*	10 May 2004 to 20 January 2013	HK$0.24	0.32%
		2,263,245	—	—	—	2,263,245			

25. SHARE-BASED EMPLOYEE COMPENSATION – COMPANY *(continued)*

Notes:

(1) These options vested and were exercisable since 10 May 2004.

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

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

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

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

(3) No options were granted, exercised, cancelled or lapsed during the years ended 31 December 2007 and 2008.

26. RESERVES

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 45 of the financial statements.

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

Company

	Share premium *HK$'000*	Accumulated losses *HK$'000*	Proposed dividend *HK$'000*	Total *HK$'000*
At 1 January 2007	24,333	(5,317)	—	19,016
Loss for the year	—	(866)	—	(866)
Proposed dividend (note 10)	(1,127)	—	1,127	—
At 31 December 2007 and 1 January 2008	23,206	(6,183)	1,127	18,150
Loss for the year	—	(917)	—	(917)
Dividend paid (note 10)	—	—	(1,127)	(1,127)
Proposed dividend (note 10)	(2,254)	—	2,254	—
At 31 December 2008	**20,952**	**(7,100)**	**2,254**	**16,106**

26. RESERVES *(continued)*

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 which were subsequently redeemed on 7 November 2003.

Under the Companies Law (2007 Revision) 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.

27. AMOUNTS DUE FROM SUBSIDIARIES – COMPANY

The amounts due from subsidiaries are unsecured, interest free and are repayable on demand.

The directors of the Company consider that the fair value of the balance is not materially different from its carrying amount because of the short maturity period on its inception.

28. OPERATING LEASE COMMITMENTS

Group

At 31 December 2008, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

	2008	2007
	HK$'000	*HK$'000*
Within one year	**2,002**	1,281
In the second to fifth years, inclusive	**1,046**	1,976
	3,048	3,257

The Group leases a number of land and buildings under operating leases. These 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.

Company

The Company did not have any significant operating lease commitments as at 31 December 2007 and 2008.

29 MATERIAL RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

	2008	2007
	HK$'000	*HK$'000*
Consultancy fees payable (note (i))	—	20
Key management personnel remuneration		
– Salaries and other short-term employee benefits	6,207	3,675
– Retirement benefits costs	96	48
	6,303	3,723

Notes:

(i) A subsidiary entered into agreement with Mr. Tong Kam Hung for the provision of consultancy services. The terms of the consultancy fees were determined based on the 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 2008, the Company has given corporate guarantees to one of its wholly owned subsidiary to the extent of HK$7,000,000 (2007: HK$6,000,000) for certain banking facilities granted, which remained unused as at 31 December 2007 and 2008.

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

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations. The financial risks include foreign currency risk, interest rate risk, credit risk, liquidity risk and fair values.

Financial risk management is coordinated at the Group's headquarters, in close co-operation with the board of directors. The overall objectives in managing financial risks focus on securing the Group's short to medium term cash flows by mininising its exposure to financial markets. Long term financial investments are managed to generate lasting returns with acceptable risk levels.

It is not the Group's policy to engage in the trading of financial instruments for speculative purposes.

30.1 Categories of financial assets and liabilities

The carrying amounts presented in the balance sheets relate to the following categories of financial assets and financial liabilities.

(i) Financial assets

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Loans and receivables				
Trade receivables	**7,970**	7,062	**—**	—
Other receivables	**332**	256	**1**	8
Pledged bank deposits	**897**	2,005	**—**	—
Cash and cash equivalents	**22,724**	11,771	**8,904**	3,328
Amounts due from subsidiaries	**—**	—	**21,420**	29,036
	31,923	21,094	**30,325**	32,372
Held-to-maturity financial assets	**19**	21	**—**	—
	31,942	21,115	**30,325**	32,372

30. FINANCIAL RISK MANAGEMENT *(continued)*

30.1 Categories of financial assets and liabilities *(continued)*

(ii) Financial liabilities

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
At amortised cost				
Trade payables and accruals	**10,198**	7,751	**240**	245

30.2 Foreign currency risk

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group mainly operates in Hong Kong and with most of the assets, liabilities and transactions of the Group primarily denominated in HK$ and United States dollars ("USD"). As HK$ is pegged to USD, accordingly the Group does 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.

The policies to manage foreign currency risk have been followed by the Group since prior years and are considered to be effective.

30. FINANCIAL RISK MANAGEMENT *(continued)*

30.2 Foreign currency risk *(continued)*

Summary of exposure

Foreign currency denominated financial assets and liabilities, translated into HK$ at the closing rates, are as follows:

Group

			2008		
	USD	RMB	Peso	CAD	Euro
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Loans and receivables					
Trade receivables	7,331	620	—	—	—
Other receivables	16	—	277	—	38
Pledged bank deposits	897	—	—	—	—
Cash and cash equivalents	18,790	674	91	42	48
Held-to-maturity financial assets	—	—	19	—	—
Trade payables and accruals	3,109	1,342	204	19	479

Company

	2008
	USD
	HK$000
Loans and receivables	
Other receivables	1
Cash and cash equivalents	7,698

30. FINANCIAL RISK MANAGEMENT *(continued)*

30.2 Foreign currency risk *(continued)*

Group

	2007				
	USD	RMB	Peso	CAD	Euro
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Loans and receivables					
Trade receivables	7,099	90	—	—	(436)
Other receivables	25	10	190	—	31
Pledged bank deposits	2,005	—	—	—	—
Cash and cash equivalents	9,247	1,148	125	56	313
Held-to-maturity financial assets	—	—	21	—	—
Trade payables and accruals	2,361	278	137	18	352

Company

	2007
	USD
	HK$000
Loans and receivables	
Other receivables	8
Cash and cash equivalents	3,300
Accruals	6

30.3 Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. 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.

30. FINANCIAL RISK MANAGEMENT *(continued)*

30.3 Interest rate risk *(continued)*

The Group's investments in held-to-maturity financial assets pay fixed interest rates. The Group's exposure to market risk for changes in interest rates relates primarily to short-term bank deposits and pledged bank deposits which bear floating interest rates. At 31 December 2008, 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$85,000 (2007: HK$49,000). This is mainly attributable to the Group's exposure to floating interest rates of the short-term bank deposits and pledged bank deposits. The Group has no significant interest-bearing liabilities.

The policies to manage interest rate risk have been followed by the Group since prior year are considered to be effective. The sensitivity analysis included in the financial statements of the year ended 31 December 2007 has been prepared on the same basis.

30.4 Credit risk

(i) Summary of exposure

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations and its investing activities.

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

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade and other receivables	**8,302**	7,318	**1**	8
Held-to-maturity financial assets	**19**	21	**—**	—
Amounts due from subsidiaries	**—**	—	**21,420**	29,036
Pledged bank deposits	**897**	2,005	**—**	—
Cash and cash equivalents	**22,724**	11,771	**8,904**	3,328
	31,942	21,115	**30,325**	32,372

30. FINANCIAL RISK MANAGEMENT *(continued)*

30.4 Credit risk *(continued)*

(ii) Risk management objectives and policies

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.

The credit and investment policies have been followed by the Group since prior years are considered to have been effective in limiting the Group's exposure to credit risk to a desirable level.

30.5 Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities. The Group is exposed to liquidity risk in respect of settlement of trade payables and accruals, and also in respect of its cash flow management. 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. To meet short term cash shortage, the Group makes use the trade credit lines provided by the banks.

The liquidity policies have been followed by the Group since prior years and are considered to have been effective in managing liquidity risks.

30. FINANCIAL RISK MANAGEMENT *(continued)*

30.5 Liquidity risk *(continued)*

Analysed below is the Group's and Company's remaining contractual maturities for its non-derivative financial liabilities as at year end date. When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date on when the Group and the Company can be required to pay.

Group

	2008			
	Within 1 year or on demand	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current liabilities				
Trade payables	6,429	—	—	—
Accruals	3,769	—	—	—
	10,198	—	—	—

Company

	2008			
	Within 1 year or on demand	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current liabilities				
Accruals	240	—	—	—

30. FINANCIAL RISK MANAGEMENT *(continued)*

30.5 Liquidity risk *(continued)*

Group

	2007			
	Within 1 year or on demand	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current liabilities				
Trade payables	5,075	—	—	—
Accruals	2,676	—	—	—
	7,751	—	—	—

Company

	2007			
	Within 1 year or on demand	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	HK$'000	*HK$'00*	*HK$'000*	*HK$'000*
Current liabilities				
Accruals	245	—	—	—

30.6 Fair values

The directors of the Company consider that the fair values of its 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 carrying amounts because of the short maturity period on their inception.

The policies to manage fair value risk have been followed by the Group since prior year are considered to be effective.

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 2007 and 2008 were zero as the Group has no borrowing or debt.

32. COMPARATIVES

The Group previously disclosed net foreign exchange loss and loss on disposals of plant and equipment within other net losses. Depending on their nature, these amounts were now included in relevant expenses on the consolidated income statement as a fairer presentation of the results of the year.

FINANCIAL SUMMARY

31 December

	2008	2007	2006	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
RESULTS					
Revenue	**96,094**	59,326	43,165	38,853	24,369
Cost of sales	**51,625**	29,678	20,092	21,808	14,243
Gross profit	**44,469**	29,648	23,073	17,045	10,126
Gross profit margin	**46%**	50%	53%	44%	42%
Profit/(Loss) for the year	**9,704**	4,306	2,564	196	(13,994)
Net profit margin	**10%**	7%	6%	1%	—
ASSETS AND LIABILITIES					
Total assets	**58,154**	45,623	37,388	36,482	35,301
Total liabilities	**12,342**	8,351	4,472	6,130	5,145
Total equity	**45,812**	37,272	32,916	30,352	30,156