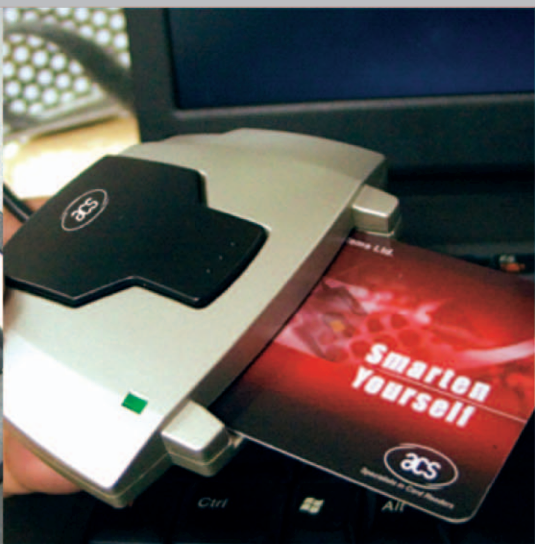
Advanced Card Systems Holdings Limited
龍傑智能卡控股有限公司*
(incorporated in the Cayman Islands with limited liability)
Stock Code : 8210



ANNUAL REPORT 2009

*For identification only

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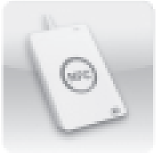
As at the date of this document, the Board comprises 3 executive directors, namely Mr. Wong Yiu Chu, Denny, Mr. Tan Keng Boon and Ms. Tsui Kam Ling, Alice; and 3 independent non-executive directors, Dr. Yip Chak Lam, Peter, Mr. Yu Man Woon and Mr. Wong Yick Man, Francis.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CORPORATE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

Ms. Lee Ka Man, *ACS, ACIS*

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
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REGISTERED OFFICE

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Cayman Islands
British West Indies

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Hong Kong

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited
Citibank, N.A.

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Butterfield House, 68 Fort Street
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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

COMPANY'S WEBSITE ADDRESS

www.acs.com.hk

STOCK CODE

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 2009.

The Group's sales revenue in 2009 grew by 9% to HK$104,963,000 from HK$96,094,000 in 2008. This growth rate was small compared with the sales growth rate of 62% in 2008.

The slower growth in 2009 was primarily owing to the slackened demand in Europe. Since Europe accounts for 60% of the Group's business in 2008, the slackened demand in Europe reduced the Group's overall sales growth to 9% even though growths in Asia Pacific of 40% and in the Americas of 83% were recorded.

The headcount increased to 171 persons at the end of 2009 from 127 persons at the end of 2008 with the increase made in all three main office locations in Hong Kong, the mainland of China and the Philippines. The operating expenses increased as a result of this increase in headcount. The increase of the gross profit, resulting from the 9% increase in sales revenue plus the increase in gross profit margin from 46% to 50%, more than covered the increase in operating expenses. As a result the net profit before tax and after tax increased by 23% to HK$15.4 million and 26% to HK$12.2 million respectively from the corresponding figures in 2008.

In order to achieve inter-operability of the smart cards and their readers, there are governing bodies in the industry to set standards for the industrial players to follow. The Group, since its initial years of business and until recently, focused on following international standards. In the last two to three years, the Group began to allocate resources in designing products following national standards of big countries in the world. The countries picked were China, Germany, USA and Japan. The Group began to enjoy the fruits of labour and effort in the China region. Sizable orders were received from the Chinese customers of products following Chinese standards. The Group will continue to pursue the strategy of following national standards in 2010 and the years to come.

The Group continued to develop a web-based enterprise management solution for internal use and for the commercial market. In 2009, with the knowledge and know-how gained from the development of the management solution and smart card and reader technologies, the Group developed a smart card based solution for automatic fare collection. At the end of 2009, the Group was preparing to launch its initial pilot versions of both the enterprise management solution and its automatic fare collection solution in 2010.

It is the Group's objective to retain long term viability and growth capability of its business. Therefore it is vital to ensure that new products are coming in the pipe-line and its customers are satisfied. The Group received the 2009 Best Practices Award "Product Quality Leadership Award for Smart Card Readers" from Frost & Sullivan. The award represents customers' recognition of the Group's product quality. The annual surveys on customer satisfaction in 2007, 2008 and 2009 also showed highly positive feedback from customers on the Group's product quality and services.

CHAIRMAN'S STATEMENT

The Group managed to sail through the global financial tsunami and turned the crisis into an opportunity. In the span of two years from 31 December 2007 to 31 December 2009, the Group increased its total headcount from 83 persons to 171 persons. The Group has continued recruiting progressively in 2010 and hired more new talents.

While expanding and diversifying its business, the Group emphasizes much on its profitability and liquidity. It has always been the objective of the Group to have a technology business that is sustainable.

I would like to take this opportunity to express my appreciation to the Group's staff for their dedication and hard work during the year of 2009, to the three independent non-executive directors for their advices and guidance, to our business partners and shareholders for their continued supports.

WONG Yiu Chu, Denny
Chairman
Hong Kong, 19 March 2010

FINANCIAL REVIEW

The Group increased its sales revenue by 9% to HK$105.0 million in the year ended 31 December 2009 from the corresponding figure of HK$96.1 million in 2008.

The Group's customers are located in over 100 countries on different continents of the world. In 2008, the sales revenue in Europe accounted for almost 60% of the total sales. In fact Europe often leads the other continents in the adoption of smart card technologies. The ratio dropped to around 49% in 2009. Most of the big customers in Europe maintained their purchase volumes with the Group in 2009 as in 2008. A few projects that had been started in 2008 were carried to 2009 and contributed to the sales revenue in 2009. However, newly initiated projects in 2009 were not as many as 2008 and ultimately the sales revenue for Europe dropped by 11% in 2009.

The sales revenue increased in Asia Pacific and was primarily owing to the success in penetrating the Chinese market. It is expected that this region will continue to grow faster than the other regions. The increase in sales revenue in the Americas was the result of higher billing in USA and Brazil. However, the Americas accounted for only 13% of the total sales revenue in 2009. The Group is addressing particularly the USA market by getting its readers certified against the USA standards.

	2009	2008	Change
	HK$'000	*HK$'000*	
Europe	**51,244**	57,528	-11%
Asia Pacific	**33,120**	23,667	+40%
The Americas	**13,570**	7,433	+83%
Middle East and Africa	**7,029**	7,466	-6%
	104,963	96,094	+9%

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(continued)*

The gross profit increased by 18%, a rate higher than the sales revenue increase rate, to HK$52.4 million owing to the increase in gross profit margin from 46% in 2008 to 50% in 2009. The operating expenses increased by 15% to HK$37.2 million mainly owing to an increase in headcount to 171 at 31 December 2009 from 127 a year ago. The increase in gross profit was HK$8.0 million which more than off-set the increase in operating expenses of HK$4.8 million. As a result, the net profit before tax increased by 23% to HK$15.4 million. The net profit after tax increased by 26% to HK$12.2 million.

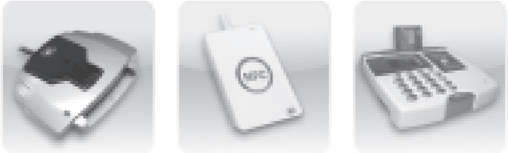
	2009 *HK$'000*	2008 *HK$'000*	Change
Revenue	**104,963**	96,094	+9%
Cost of sales	**(52,521)**	(51,625)	+2%
Gross profit	**52,442**	44,469	+18%
Gross profit margin	**50%**	46%	
Other income	**181**	500	-64%
Administrative expenses	**(15,852)**	(14,435)	+10%
Research and development expenses	**(13,473)**	(10,419)	+29%
Selling and distribution costs	**(7,595)**	(7,198)	+6%
Finance costs	**(299)**	(387)	-23%
Total expenses	**(37,219)**	(32,439)	+15%
Profit before income tax	**15,404**	12,530	+23%
Income tax expense	**(3,185)**	(2,826)	+13%
Profit for the year	**12,219**	9,704	+26%

To meet the needs for the research and development of products which asked for a high degree of sophistication, further investments were made in plant and equipment.

The inventories and trade and other receivables, deposits paid and prepayments increased in greater proportions than the annual sales increase partially owing to the relatively high sales close to the end of Year 2009. Furthermore, the higher growth rate of inventories comparing the growth rate of sales was owing to various products entering into pilot production. Since there are requirements on minimal order quantities for the raw materials, the inventories could not be kept low even before commercial scale has been reached.

The increase in financing by business partners as reflected in the increase by almost HK$9 million in the trade payables, deposits received and accruals and the reserves of some HK$10 million provided funding to the Group and as a result the cash level was maintained at around HK$24 million level.

The Group's banking facilities were arranged for working capital and standby purposes. At the end of Year 2009, the outstanding of these banking facilities were zero.



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(continued)*

	2009 *HK$'000*	2008 *HK$'000*	Change
ASSETS AND LIABILITIES			
Non-current assets			
Plant and equipment	**5,620**	3,540	+59%
Development costs	**9,945**	9,238	+8%
	15,565	12,778	+22%
Current assets			
Inventories	**17,882**	12,129	+47%
Trade and other receivables, deposits paid and prepayments	**19,481**	9,607	+103%
Held-to-maturity financial assets	**20**	19	+5%
Cash at banks and on hand	**23,810**	23,621	+1%
	61,193	45,376	+35%
Current liabilities			
Trade payables, deposits received and accruals	**19,462**	10,927	+78%
Provision for taxation	**827**	1,157	-29%
	20,289	12,084	+68%
Net current assets	**40,904**	33,292	+23%
Total assets less current liabilities	**56,469**	46,070	+23%
Non-current liabilities			
Deferred tax liabilities	**564**	258	+119%
Net assets	**55,905**	45,812	+22%
EQUITY			
Share capital	**28,260**	28,180	+0%
Reserves	**27,645**	17,632	+57%
Total equity	**55,905**	45,812	+22%

MANAGEMENT DISCUSSION AND ANALYSIS

DIVIDEND

The board of directors (the "Board") has recommended the payment of a dividend of HK1.1 cents (2008: HK0.8 cents) per share, totalling of HK$3.1 million, for the year ended 31 December 2009. Subject to approval by the shareholders at the forthcoming annual general meeting on 7 May 2010, the dividend will be paid on 18 May 2010 to shareholders whose names appear on the register of members of the Company on 7 May 2010.

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

BUSINESS REVIEW

Business strategies

The Group has the mission to become a leading supplier of smart card and smart card reader technologies in the world market. The key products which the Group is supplying are primarily PC-linked products including contact-based smart card readers, contactless smart card readers, flash drive integrated with smart card readers, etc. The market of these products is primarily for "logical" access control, e.g. access control to the PC or the Internet network. Logical access control using smart cards is gaining popularity in recent years but still not widespread. Thus to grow its business, the Group should sell its products to many countries and has to participate in many projects in the world. The incubation time of such projects, especially national projects, is usually very long. To serve customers all over the world in the sales and marketing and in the technical areas would require a good amount of human resources. Effective deployment of the staff at controlled costs is vital to the success of the business.

In order to achieve effective deployment of the staff members, the Group has continued to pursue the strategy of combining the strengths of the staff members in the offices in Hong Kong, the mainland of China and the Philippines.

Good communication must be achieved for the staff members located in different places in order for them to function efficiently. About three years ago, the Group started to develop a web-based enterprise management solution program for internal use to track and manage customer relationships, product development, technical support, customer services, internal discussions, etc. This program is benefiting the management of the business substantially. The program is designed in a way that it is generic in nature and can be utilized by other companies. It is meant suitable for the commercial market.

BUSINESS REVIEW *(continued)*

Business strategies *(continued)*

Since the establishment of the business in 1995, it has always been the goal of the management to focus on development of hardware, namely, smart cards and smart card readers. The Group has built a base of customers located in over 100 countries in the world. Frequently, the customers are looking for total solutions using smart cards. The Group used to decline their requests as its business was strictly the provision of hardware. A few years ago, the Group decided to develop and offer one type of smart card based solution - the solution for automatic fare collection ("AFC") with the focus on fare collection of public buses. The AFC solution was built based on the Group's in-depth knowledge of smart card operating systems, smart card readers and terminals, encryption and above all management software. This AFC solution showcases our unique combination of skills and expertise and allows us to satisfy the needs and demands of customers located particularly in developing countries, who are sometimes neglected by global AFC providers who are more focused on the developed countries.

Regional focus

Since the establishment of its business in 1995, the Group has considered the world to be its market. Very early in the business, the Group began to get its smart card readers certified against international standards, such as the PCSC (Personal Computer Smart Card) standard established by an industrial body led by Microsoft and the EMV (Europay, Mastercard and Visa) standard by the credit card companies. Many countries require smart card readers to follow such international standards. However, some big countries, such as China, USA, Japan and Germany have their own standards.

In the last two to three years, the Group spent more efforts in addressing the Chinese market. China has its own standards for smart cards and readers. The Group has had some of its products certified against the Chinese standards. Also over the years, it has strengthened the relationships with its customers. The Group had some successes in securing relatively big sales orders in China for products certified against the local standards.

In 2009, the Group had certain of its smart card readers certified against the FIPS (Federal Information Processing Standard) commonly required by the USA government. It has begun to promote these certified products to the USA market.

The Japanese market has its own requirements for smart card readers and the Group will address this market starting in 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(continued)*

Awards

The Group received the 2009 Best Practices Award "Product Quality Leadership Award for Smart Card Readers" from Frost & Sullivan. According to Frost & Sullivan, to select the Award recipient, its analyst team first tracked all products and research and development projects within the industry via interviews with market participants, end-users, distributors, and extensive secondary and technology research. After comparing and ranking different products on the industry's quality standards, ACS (Advanced Card Systems Limited) was ranked as number one ahead of other smart card reader providers and hence was awarded. The award represents customers' recognition of the Group's product quality.

Main products introduced to the market in 2009

eH880 multi-functional smart card terminal

The Group launched it multi-functional smart card terminal, Model eH880, in May 2009. The terminal has multiple slots to accept contact smart cards and contactless smart cards. It can be connected to the PC or to the Internet line directly through a LAN (Local Area Network) line.

It can be used as a health terminal to read the "health card" for patients. Access is granted to the data in the health card when both the patient's card and the professional's card are inserted. The professional's card can be one for, say, a medical doctor or for a pharmacist. Also access can be granted to the medical web-site too if needed, through the appropriate authorization.

The eH880 device can also be used as a terminal for time and attendance control where time-in and time-out are recorded by swiping a contactless card and uploaded to the Internet in real-time.

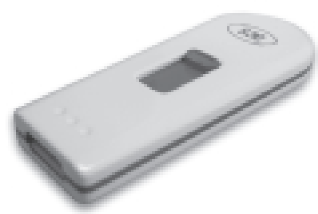
MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(continued)*

Main products introduced to the market in 2009 *(continued)*

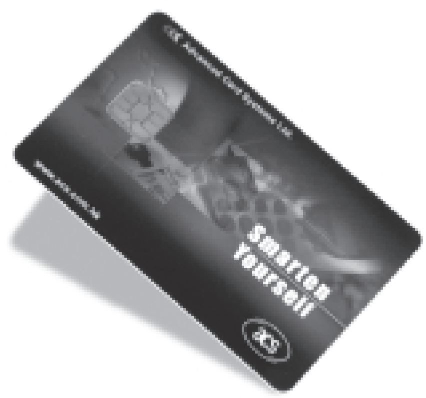
ACR122T contactless smart card reader token

The Group launched in September 2009 its ACR122T NFC (Near Field Communication) Contactless Smart Card Reader Token. The device is specially designed for mobile applications. Its compact and extractable USB plug design is highly portable and easy to use, making the device suitable for integration into fast-paced environments. The product suits a wide range of NFC applications, such as secure computer log-on with corresponding contactless cards or NFC tags in public places like a coffee shop or public library, balance-checking and reloading of an e-Purse, and online payment.



ACOS7 dual-interface smart card

The Group launched its new ACOS7 dual-interface smart card for the world transportation market. A "dual-interface" card has both a contact card and a contactless card function (with a radio-frequency antenna embedded) and can be used as an "All-in-One Card". "All-in-One Card" is a very popular concept in some cities where AFC for public transportation is implemented. It is a single smart card being used within a city both for transit and for non-transit payment. ACOS7 can be used for transportation, retail, property management, car parking, utility supply, etc.



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(continued)*

Main products introduced to the market in 2009 *(continued)*

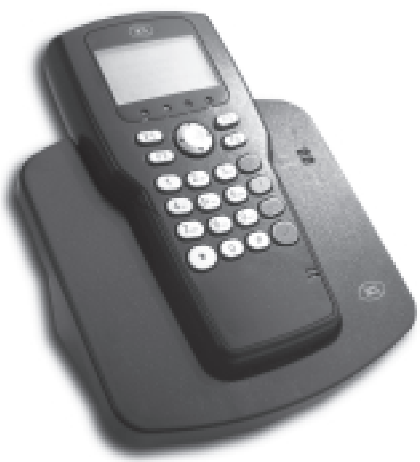
ACOS7 dual-interface smart card (continued)

Additionally, certified to be compliant with the Ministry of Construction (MoC) standard, a national "All-in-One Card" standard defined by the China Government, ACOS7 is catered for the AFC market in China. China is the country in the world with the largest number of smart cards in use for AFC. This Chinese standard was set based on the vast experience of MoC in involving in many "All-in-One Card" projects in China. Getting its products compliant to the Chinese standards is a business strategy of the Group.

Main products being developed in 2009

ACR880 portable terminal

At the end of 2009, the device ACR880 which can be considered as the portable version of eH880 both using a 32-bit embedded micro-processor, was about to be launched. The Group allocated a large amount of engineering resources to cope with the challenges to perfect the device and to meet multiple goals of supporting a wide range of contact and contactless cards for reasonably long operating distances, to comply with electronic magnetic interface standards, EMV standards, low power consumption and faultless GPRS support. In the long process to develop the product, the engineering team acquired new know-how and built a knowledge base which can be applied in the future development of sophisticated smart card terminals.



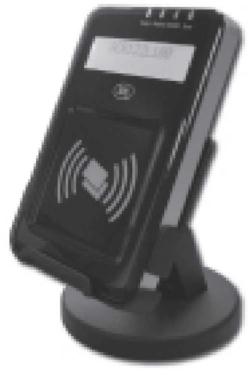
The product can be used in various occasions where external power supply is not readily available. Examples of uses are inspection of tickets using contactless cards, paying taxi fare, reading health cards by medical practitioners outside their clinics, etc.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(continued)*

Main products being developed in 2009 *(continued)*

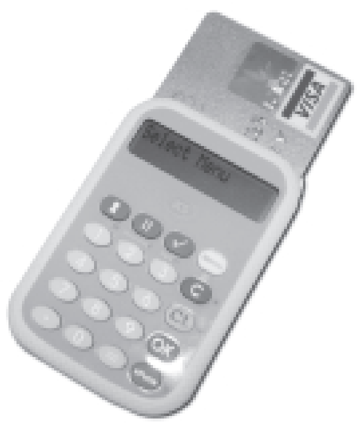
Contactless reader with a display



The Group is developing a contactless reader with a liquid crystal display, named ACR122L. The device is to be connected to a point of sales terminal to accept contactless cards.

It is catered for retail merchants to accept transit cards for non-transit uses. Contactless cards are getting popular to be used in the world to pay fare for public transportation such as for buses and mass transit by trains. Such transit-cards are used in some cities in the world to make micro-payments in retail outlets. The ACR122L is highly suitable for such applications.

One time password generator



The Group is developing an OTP (one time password) generator, APG8201, compliant to Mastercard standard. It is a compact, standalone, low-cost, handheld smart card device that contains a numeric keypad and a display. It can be used in a variety of payment and bank applications.

To operate the device, the cardholder inserts the EMV payment card (e.g. a smart card based credit card) into the device and enters the PIN (something you know) using the device keyboard. A dynamic one-time password is generated and shown on the display. The cardholder can then use this password to perform secure online transactions, e.g. placing an order on the telephone, performing e-banking, making payment on the Internet, etc.

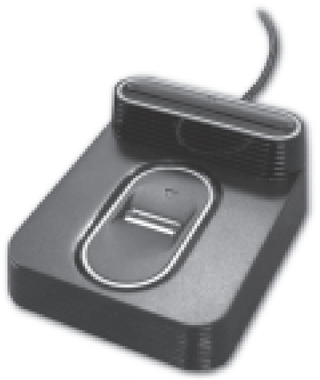
MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(continued)*

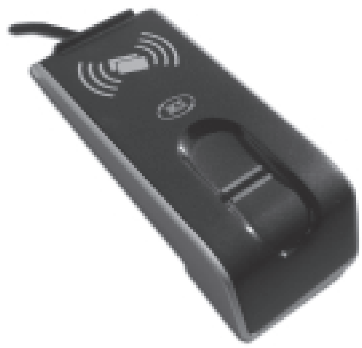
Main products being developed in 2009 *(continued)*

AET65 and AET62 finger print scanner integrated with a smart card reader

The Group is also developing two new versions of semiconductor finger print readers integrated with a smart card reader. AET65 and AET62 have both a swiped finger print sensor and respectively support a contact and a contactless smart card. There are two basic types of finger print sensors. The "touch" sensor captures the finger print by the touch of a finger. The "swipe" sensor captures the finger print by the swiping of a finger. The "swipe" finger print sensor is in the form of a stripe while the "touch" senor needs a bigger area to "touch" the full finger print. Because of the smaller area of the semiconductor, the swipe sensor is cheaper. The finger print devices are for use in higher security applications. The aim to come up with the lower cost finger print devices is to address to the mass market. One possible use is for the access control to the web-based software offered as a service, or in the more modern term, as a form of "Cloud Computing" (where the users will reach the software in the cloud (Internet)).



AET65



AET62

Attending trade shows and giving speeches

In 2009, the Group participated in 8 trade shows in Europe and Asia and by setting up a booth there.

The Group delegates gave speeches and presented at various trade shows, including the <Directions for NFC and Mobile Contactless Business in 2009> in Tokyo, Japan, <Future Trends and Applications for Transport Cards> in Nanjing, China and <The 6th Railway Automatic Fare Collection Conference and Exhibition> in Chengdu, China. Furthermore, the Group also provided trainings to the lecturers and professors of University of the Philippines at Los Baños so as to help them prepare courses on smart card technologies for the students.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

When the business was established in 1995, ACS set the mission to be a leading provider of smart cards and smart card readers in the world market. It took the PC-linked smart card readers to be its flagship products. The Group has now become a leading provider of PC-linked smart card readers, both contact and contactless in the world market. The PC-linked reader market has been growing but its total world market size is still limited. Thus the Group just reached the sales revenue of nine digit in HK dollar as late as in 2009. In order to keep its growth, the Group extended its geographical coverage. It has now a substantial base of customers located in over 100 countries in the world. Also in the 15 years of doing business, the Group has emphasized much on customer satisfaction by providing good quality products at competitive prices and by providing good services. The annual customer satisfaction surveys, and the quality award by Frost & Sullivan, indicated that the Group has good image in product quality and services.

In the last several years, the Group extended its product portfolio and developed much more sophisticated products. It also entered into the business of providing solutions particularly automatic fare collection solutions for public transportation. The solution was made possible by a big amount of know-how acquired since the establishment of the business. Additionally, the base of satisfied customers located widely in the world is being turned into a base of business partners in the solution business.

During the past 2 years of global financial crisis, the Group seized the opportunity by attracting and enrolling a good number of talented people and has hence achieved a better economy of scale, an important element for any viable technology business.

Owing to the good product quality image, diversified base of satisfied customers, more advanced technologies and above all a stronger staff force, the Group looks forward to better performance in 2010 and the years to come.

LIQUIDITY AND FINANCIAL RESOURCES

At all times the Group maintains an adequate liquidity position. As at 31 December 2009, the Group's cash at banks and on hand amounted to HK$23.8 million (2008: HK$23.6 million including pledged time deposits of HK$0.9 million which were pledged to a bank as security for bank lines). At 31 December 2009, the previous pledges on bank deposits were all released, and the credit lines offered by the bank were not utilized (2008: Nil).

The current ratio, being the ratio of current assets to current liabilities, was 3.0 (2008: 3.8). Net asset value as at the year end date was HK$55.9 million (2008: HK$45.8 million).

MANAGEMENT DISCUSSION AND ANALYSIS

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 2009, the Group did not have any borrowings and, accordingly, the gearing ratio, being the total interest bearing debts over the total equity, was zero (2008: zero). The Group keeps most of its cash in Hong Kong dollars ("HK$"), Euro, United States dollars ("US$") and Renminbi ("RMB") 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 2009.

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

The assets, liabilities and transactions of the Group are primarily denominated in HK$, Euro, US$ and RMB. As HK$ is pegged to US$, accordingly the Group does not have significant exposure to risk resulting from changes in the foreign currency exchange rates of US$. In relation to the fluctuation on RMB against HK$, the Group considers that exchange risk arising from those currencies does not have significant financial impact to the Group. No hedging or other alternatives have been implemented during the year. The Group will consider hedging significant foreign currency exposure should the need arise.

PLEDGE OF ASSETS

As at 31 December 2009, the Group did not pledge any of its assets.

CONTINGENT LIABILITIES

As at 31 December 2009, the Company had outstanding corporate guarantee of HK$6 million (plus accrued interest thereon) to a bank in respect of banking facilities granted to its main subsidiary. Save as disclosed herein, the Group did not have any significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2009, the Group had 171 full time employees. Staff costs amounted to HK$23.5 million (2008: HK$18.9 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 62, 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 51, 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 57, 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. 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, a distributor of semiconductor components until 1997 when it was acquired by Future Electronics Holdings Inc. She then worked as the Administration Manager of Future Advanced Electronics (Hong Kong) Limited until September 1998. Ms. Tsui had a teaching career from 1975 to 1983. Ms. Tsui graduated from The Chinese University of Hong Kong with a bachelor of arts degree in 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 59, 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 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 59, 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 56, 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 telecom businesses in Hong Kong and in the US. He is currently engaged in direct investments and technology research. Mr. Wong is a graduate of The University of Hong Kong and a fellow member of the Association of Chartered Certified Accountants and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants.

SENIOR MANAGEMENT

Mr. CHU Chi Lok, Patrick

Mr. Patrick Chu, aged 38, 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 45, is the Vice President 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 46, 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 Terminal Products 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 34, 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 35, is the Finance Manager 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 code provisions 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 21 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 2009.

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 17 to 18 of this Annual Report.

During the year ended 31 December 2009, 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 2009. Due notice and board papers were given to all directors prior to the meeting in accordance with the GEM Listing Rules and the Code. Details of individual attendance of directors are set out below:

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

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

Ms. Tsui Kam Ling, Alice is the spouse of Mr. Wong Yiu Chu, Denny. 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, Mr. Yu Man Woon and Mr. Wong Yick Man, Francis were re-appointed by the board of directors as the independent non-executive directors for a term of two years commencing from 1 June 2008 to 31 May 2010.

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 15.1 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 two meetings 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)*	2/2
	Yu Man Woon	2/2
Executive director	Wong Yiu Chu, Denny	2/2

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 2009, the fee payable to the auditors in respect of audit and non-audit services amounted to HK$307,000 and HK$244,000 respectively.

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	4/4
	Wong Yick Man, Francis	4/4

Set out below is the summary of work performed by the audit committee during the year ended 31 December 2009:

(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 judgements 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 38 to 39 of this Annual Report. There are no material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

INTERNAL CONTROL

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

During the year, the Board, through the audit committee, has assessed the effectiveness of the internal control system of the Group including financial, operational and compliance controls and risk management functions. The Board is satisfied that, the present system of internal control is effective. The Group does not have the internal audit function and does not consider that there is a need to have one.

COMMUNICATION WITH SHAREHOLDERS

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

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

At the 2009 annual general meeting, a separate resolution was proposed by the chairman in respect of each separate issue, including re-election of directors and voted by way of poll. The Company announced the results of the poll in the manner prescribed under the GEM Listing Rules. The chairman of the Board, audit committee and remuneration committee attended the 2009 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 2009.

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 17 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 5 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	15%	—
Five largest customers in aggregate	49%	—
The largest supplier	—	15%
Five largest suppliers in aggregate	—	44%

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 2009 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 40 to 103.

The directors have recommended the payment of a dividend of HK1.1 cents (2008: HK0.8 cents) per share for the year ended 31 December 2009. Subject to 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 7 May 2010.

REPORT OF THE DIRECTORS

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Monday, 3 May 2010 to Friday, 7 May 2010, 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 Friday, 30 April 2010.

RESERVES

Profit for the year of HK$12,219,000 (2008: HK$9,704,000) has been transferred to reserves. Details of the movements in the reserves of the Group and the Company during the year are set out in note 27 to the financial statements.

PLANT AND EQUIPMENT

Details of the movements in plant and equipment of the Group are set out in note 16 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in share capital and share options of the Company during the year are set out in notes 25 and 26 to the financial statements respectively. Shares were issued during the year in respect of the share options being exercised by a consultant.

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. Wong Yiu Chu, Denny and Mr. Wong Yick Man, Francis 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 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, Mr. Yu Man Woon and Mr. Wong Yick Man, Francis were re-appointed by the board of directors as the independent non-executive directors for a term of 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 2009, 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 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 2009
Mr. Wong Yiu Chu, Denny *(Note 2)*	80,768,000	43,714,522	—	—	124,482,522	44.05%
Ms. Tsui Kam Ling, Alice *(Note 3)*	43,714,522	80,768,000	—	—	124,482,522	44.05%
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 43,714,522 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 43,714,522 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 2009, none of the directors or their associates had any personal, family, corporate or other interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the required standard of dealings by directors as referred to in Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEMES

(i) Pre-IPO Share Option Plan

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

(a) *Purpose of the Plan*

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

(b) *Participants of the Plan*

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

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

The maximum number of shares in respect of which options may be granted under the Plan was 6,535,631 shares, which represents approximately 2.31% of the issued share capital as at 19 March 2010.

(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 2009, the consultant 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 2009 was HK$0.34) 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 2009	Granted during the year	Exercised during the year	Lapsed during the year	Balance as at 31 December 2009	Period during which the options are exercisable	Exercise price per share	Percentage of the Company's issued share capital as at 31 December 2009
Consultant & Employees	27 October 2003	1,361,607	–	800,000 *(Note 2)*	–	561,607 *(Note 1, 3)*	10 May 2004 to 24 July 2010	HK$0.09	0.20%
Employees	27 October 2003	862	–	–	–	862 *(Note 3)*	10 May 2004 to 27 December 2010	HK$0.09	0.01%
	27 October 2003	900,776	–	–	–	900,776 *(Note 4)*	10 May 2004 to 20 January 2013	HK$0.24	0.32%
		2,263,245	–	800,000	–	1,463,245			

SHARE OPTION SCHEMES *(continued)*

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

Notes:

1 401,034 share options were granted to a consultant of the Group. All other options were granted to employees of the Group.

2 800,000 share options at an exercise price of HK$0.09 each have been exercised by the consultant during the year ended 31 December 2009. The weighted average closing price of the shares immediately before the date on which the options were exercised was HK$0.35.

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

4 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.

5 No option was granted, 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 2009 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 2009
Proway Investment Limited *(Note 2)*	Beneficial owner	31,740,305 shares (L)	11.23%
Morningside CyberVentures Holdings Limited *(Note 2)*	Other	31,740,305 shares (L)	11.23%
Verrall Enterprises Holdings Limited *(Note 2)*	Other	31,740,305 shares (L)	11.23%
Madam Chan Tan Ching Fen *(Note 2)*	Other	31,740,305 shares (L)	11.23%
Mr. Tjio Kay Loen *(Note 3)*	Beneficial owner and Other	26,200,000 shares (L)	9.27%
Warren Securities Limited	Beneficial owner	14,200,000 shares (L)	5.02%

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 Kay Loen is taken to be interested in these shares under the SFO.

Save as disclosed above, as at 31 December 2009 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 104 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 (the "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 profit or loss as incurred. During the year, the retirement scheme contributions borne by the Group amounted to HK$896,000 (2008: HK$642,000).

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 2009.

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, 19 March 2010

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 40 to 103, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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

GrantThornton
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 2009 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
6th Floor, Nexxus Building
41 Connaught Road Central
Hong Kong

19 March 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Revenue	6	**104,963**	96,094
Cost of sales		**(52,521)**	(51,625)
Gross profit		**52,442**	44,469
Other income	7	**181**	500
Administrative expenses		**(15,852)**	(14,435)
Research and development expenses		**(13,473)**	(10,419)
Selling and distribution costs		**(7,595)**	(7,198)
Finance costs	8	**(299)**	(387)
Profit before income tax	9	**15,404**	12,530
Income tax expense	10	**(3,185)**	(2,826)
Profit for the year		**12,219**	9,704
Other comprehensive income			
Exchange gain / (loss) on translation of financial statements of foreign operations		**56**	(37)
Other comprehensive income		**56**	(37)
Total comprehensive income for the year		**12,275**	9,667
Earnings per share for profit attributable to the owners of the Company during the year	13		
Basic		**HK4.34 cents**	HK3.44 cents
Diluted		**HK4.32 cents**	HK3.43 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	Notes	**2009**	2008
		HK$'000	*HK$'000*
ASSETS AND LIABILITIES			
Non-current assets			
Plant and equipment	16	**5,620**	3,540
Development costs	18	**9,945**	9,238
		15,565	12,778
Current assets			
Inventories	19	**17,882**	12,129
Trade and other receivables, deposits paid and prepayments	20	**19,481**	9,607
Held-to-maturity financial assets	21	**20**	19
Pledged time deposits	22	**—**	897
Cash and cash equivalents	22	**23,810**	22,724
		61,193	45,376
Current liabilities			
Trade payables, deposits received and accruals	23	**19,462**	10,927
Provision for taxation		**827**	1,157
		20,289	12,084
Net current assets		**40,904**	33,292
Total assets less current liabilities		**56,469**	46,070
Non-current liabilities			
Deferred tax liabilities	24	**564**	258
Net assets		**55,905**	45,812
EQUITY			
Share capital	25	**28,260**	28,180
Reserves	27	**27,645**	17,632
Total equity		**55,905**	45,812

WONG Yiu Chu, Denny
Director

TSUI Kam Ling, Alice
Director

STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	Notes	**2009** ***HK$'000***	2008 *HK$'000*
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	17	**14,004**	14,004
Current assets			
Amounts due from subsidiaries	17	**26,698**	21,420
Other receivables and prepayments	20	**202**	198
Cash and cash equivalents	22	**447**	8,904
		27,347	30,522
Current liabilities			
Accruals	23	**257**	240
Net current assets		**27,090**	30,282
Net assets / Total assets less current liabilities		**41,094**	44,286
EQUITY			
Share capital	25	**28,260**	28,180
Reserves	27	**12,834**	16,106
Total equity		**41,094**	44,286

WONG Yiu Chu, Denny
Director

TSUI Kam Ling, Alice
Director

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	Notes	2009 *HK$'000*	2008 *HK$'000*
Cash flows from operating activities			
Profit before income tax		15,404	12,530
Adjustments for:			
Depreciation	9	2,062	1,469
Amortisation of development costs	9	2,041	2,272
Finance costs	8	299	387
Write-back of provision for inventories	9	(34)	(83)
Impairment losses on trade receivables	9	—	49
Bad debts written off	9	4	53
Interest income	7	(14)	(188)
Loss on disposals of plant and equipment	9	25	56
Operating profit before working capital changes		19,787	16,545
Increase in inventories		(5,719)	(1,867)
Increase in trade and other receivables, deposits paid and prepayments		(9,878)	(637)
Increase in trade payables, deposits received and accruals		8,535	2,576
Cash generated from operations		12,725	16,617
Income taxes paid		(3,209)	(631)
Net cash from operating activities		9,516	15,986

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	Notes	2009 *HK$'000*	2008 *HK$'000*
Cash flows from investing activities			
Purchases of plant and equipment		(4,168)	(2,486)
Proceeds from disposals of plant and equipment		1	1
(Payments to acquire)/Proceeds from disposals of held-to-maturity financial assets		(1)	2
Development costs capitalised		(2,748)	(2,295)
Interest received		14	188
Decrease in pledged time deposits		897	1,108
Net cash used in investing activities		(6,005)	(3,482)
Cash flows from financing activities			
Proceeds from shares issued upon conversion of share options		72	—
Dividend paid		(2,254)	(1,127)
Finance costs paid		(299)	(387)
Net cash used in financing activities		(2,481)	(1,514)
Net increase in cash and cash equivalents		1,030	10,990
Cash and cash equivalents at 1 January		22,724	11,771
Effect of foreign exchange rates changes		56	(37)
Cash and cash equivalents at 31 December		23,810	22,724

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Share capital *HK$'000*	Share premium *HK$'000*	Merger reserve *HK$'000*	Translation reserve *HK$'000*	(Accumulated losses)/ Retained profits *HK$'000*	Proposed dividend *HK$'000*	Total *HK$'000*
Balance at 1 January 2008	28,180	23,206	4,496	50	(19,787)	1,127	37,272
2007 dividends approved *(Note 12)*	—	—	—	—	—	(1,127)	(1,127)
Transactions with owners	28,180	23,206	4,496	50	(19,787)	—	36,145
Profit for the year	—	—	—	—	9,704	—	9,704
Other comprehensive income – Exchange loss on translation of financial statements of foreign operations	—	—	—	(37)	—	—	(37)
Total comprehensive income for the year	—	—	—	(37)	9,704	—	9,667
2008 dividends proposed *(Note 12)*	—	(2,254)	—	—	—	2,254	—
Balance at 31 December 2008	28,180	20,952	4,496	13	(10,083)	2,254	45,812

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Share capital HK$'000	Share premium HK$'000	Merger reserve HK$'000	Translation reserve HK$'000	(Accumulated losses)/ Retained profits HK$'000	Proposed dividend HK$'000	Total HK$'000
Balance at 1 January 2009	28,180	20,952	4,496	13	(10,083)	2,254	45,812
2008 dividends approved *(Note 12)*	—	—	—	—	—	(2,254)	(2,254)
Issue of shares upon exercise of share options	80	(8)	—	—	—	—	72
Transactions with owners	28,260	20,944	4,496	13	(10,083)	—	43,630
Profit for the year	—	—	—	—	12,219	—	12,219
Other comprehensive income – Exchange gain on translation of financial statements of foreign operations	—	—	—	56	—	—	56
Total comprehensive income for the year	—	—	—	56	12,219	—	12,275
2009 dividends proposed *(Note 12)*	—	(3,109)	—	—	—	3,109	—
Balance at 31 December 2009	**28,260**	**17,835***	**4,496***	**69***	**2,136***	**3,109***	**55,905**

* The aggregated amount of the above balances of HK$27,645,000 (2008: HK$17,632,000) represented the reserves in the consolidated statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

1. GENERAL INFORMATION

Advanced Card Systems Holdings Limited (the "Company") was incorporated in the Cayman Islands on 13 April 2000 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. Its registered office is located at 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. The Group's operations are based in Hong Kong and People's Republic of China (the "PRC"). Details of the principal activities of the subsidiaries are set out in Note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

The financial statements for the year ended 31 December 2009 were approved for issue by the board of directors on 19 March 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements on pages 40 to 103 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

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 adoption of new or amended HKFRSs and the impacts on the Group's financial statements, if any, are disclosed in Note 3.

The financial statements have been prepared on 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 areas 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.

2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (see 2.3 below) made up to 31 December each year.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

2.3 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.

In consolidated financial statements, acquisition of subsidiaries is 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 statement of financial position at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

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

2.3 Subsidiaries *(continued)*

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

2.4 Foreign currency translation

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

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in the profit and loss.

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 reporting 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 recognised in other comprehensive income and accumulated separately in the translation reserve in equity.

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

2.5 Plant and equipment

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

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

Leasehold improvements	Over the remaining term of the leases
Furniture and fixtures	25%
Computer and office equipment	25%
Moulds	25%

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting 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 profit or loss.

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 profit or loss during the financial period in which they are incurred.

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

2.6 Research and development costs

Costs associated with research activities are expensed in profit or loss as they occur. Costs that are directly attributable to the development activities 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.

Direct costs include employee costs incurred on development activities along with an appropriate portion of relevant overheads. The costs of development of internally generated software, products or knowhow that meet the above recognition criteria are recognised as intangible assets. These are subject to the same subsequent measurement method as acquired intangible assets. Development costs are recognised initially at cost. After initial recognition, they are carried at cost less accumulated amortisation and any impairment losses. Development costs capitalised are amortised to the profit or loss on straight-line method over their estimated useful lives of four years. Development costs are tested for impairment as described below in Note 2.16.

All other development costs are expensed as incurred.

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

2.7 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 reporting 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.

(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 positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest 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 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.

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

2.7 Financial assets *(continued)*

Impairment of financial assets

At each reporting date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets 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.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

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

2.7 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. The amount of the loss is recognised in the profit or loss 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 profit or loss of the period in which the reversal occurs.

2.8 Inventories

Inventories are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

Cost is determined using 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 overheads.

2.9 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and 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.

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

2.10 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 in accordance with the Group's accounting policy for borrowing costs (see Note 2.18).

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 profit or loss.

Trade payables and accruals

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

2.11 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 profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss 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.

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

2.12 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.

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 of assets held under operating leases, payments made under the leases are charged to the profit or loss on straight line method over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are charged to profit or loss in the accounting period in which they are incurred.

2.13 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 of the amount of the obligation 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 reporting date and adjusted to reflect the current best estimate.

2.14 Share capital

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

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transactions.

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

2.15 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable 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.

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

2.16 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 with indefinite useful life or those 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. 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.

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

2.16 Impairment of non-financial assets *(continued)*

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.

Any remaining 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.

2.17 Employee benefits

Retirement benefits

Retirement benefits to employees are provided through defined contribution plans.

The Group operates a defined contribution retirement benefit plan under the Mandatory Provident Fund Schemes Ordinance ("MPF Scheme"), for all of its employees 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.

The employees of the Group's 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.

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

2.17 Employee benefits *(continued)*

Retirement benefits *(continued)*

The Group'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.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The Group's obligations under these plans is limited to the contributions payable.

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 reporting date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

Share-based employee compensation

The Group operates equity-settled share-based compensation plans for remuneration of its employees.

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 equity instruments 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).

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

2.17 Employee benefits *(continued)*

Share-based employee compensation *(continued)*

All share-based compensation is recognised as an expense in profit or loss over the vesting period if vesting conditions apply, or recognised as an expense in full at the grant date when the equity instruments granted vest immediately unless the compensation qualifies for recognition as asset, with a corresponding increase in the share option reserve in equity. If vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of equity instruments expected to vest. Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to vest. Estimates are subsequently revised, if there is any indication that the number of equity instruments expected to vest differs from previous estimates.

At the time when the share options are exercised, the amount previously recognised in share option reserve is transferred to share premium. After vesting date, when the vested share options are later forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve is transferred to retained profits.

2.18 Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

2.19 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 reporting 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 profit or loss.

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

2.19 Accounting for income taxes *(continued)*

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, 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 goodwill or 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 reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

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

2.19 Accounting for income taxes *(continued)*

Current tax assets and current tax liabilities are presented in net if, and only if,

(a) the Group has the legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

  (i) the same taxable entity; or

  (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.20 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's activities.

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

2.20 Segment reporting *(continued)*

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except that corporate income and expenses which are not directly attributable to the business activities of any operating segment are not included in arriving at the operating results of the operating segment.

Segment assets generally include all assets of the Group. Corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment, which primarily applies to the Group's headquarters.

Segment liabilities exclude corporate liabilities which are not directly attributable to the business activities of any operating segment and are not allocated to a segment.

2.21 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 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.

3. ADOPTION OF NEW OR AMENDED HKFRSs

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations (the "new HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2009:

HKAS 1 (Revised 2007)	Presentation of financial statements
HKAS 23 (Revised 2007)	Borrowing costs
HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or an associate
HKFRS 2 (Amendments)	Share-based payment – vesting conditions and cancellations
HKFRS 7 (Amendments)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
Various – Annual improvements to HKFRSs 2008	

Other than as noted below, the adoption of 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.

HKAS 1 (Revised 2007) Presentation of financial statements

The adoption of HKAS 1 (Revised 2007) makes certain changes to the format and titles of the primary financial statements and to the presentation of some items within these statements. A third statement of financial position as at the beginning of the earliest comparative period is required when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements. It also gives rise to additional disclosures.

The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged. However, some items that were recognised directly in equity are now recognised in other comprehensive income. HKAS 1 affects the presentation of owner changes in equity and introduces a 'Statement of comprehensive income'. Comparatives have been restated to conform with the revised standard. The Group has applied changes to its accounting polices on presentation of financial statements and segment reporting retrospectively. However, the changes to the comparatives have not affected the consolidated or company statement of financial position at 1 January 2008 and accordingly the third statement of financial position as at 1 January 2008 is not presented.

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

HKAS 23 (Revised 2007) Borrowing costs

HKAS 23 (Revised 2007) requires borrowing costs incurred for the acquisition, construction or production of any qualifying asset to be capitalised during the period of time that is required to complete and prepare the asset for its intended use. In prior years, the Group recognised all the borrowing costs in expenses. Under the revised standard, borrowing costs related to acquisition, construction or production of any qualifying assets will be capitalised accordingly.

HKFRS 8 Operating segments

The adoption of HKFRS 8 has not affected the identified and reportable operating segments for the Group. However, reported segment information is now based on internal management reporting information that is regularly reviewed by the chief operating decision maker. In the previous annual financial statements, segments were identified by reference to the dominant source and nature of the Group's risks and returns. Comparatives have been restated on a basis consistent with the new standard.

Annual improvements to HKFRSs 2008

In October 2008, the HKICPA issued its first Annual Improvements to HKFRSs which set out amendments to a number of HKFRSs. There are separate transitional provisions for each standard.

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

The directors 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. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Certain other new and amended HKFRSs have been issued but are not expected to have a material impact of the Group's financial statements.

HKFRS 3 Business combinations (Revised 2008)

The standard is applicable in reporting periods beginning on or after 1 July 2009 and will be applied prospectively. The new standard still requires the use of the purchase method (now renamed the acquisition method) but introduces material changes to the recognition and measurement of consideration transferred and the acquiree's identifiable assets and liabilities, and the measurement of non-controlling interests (previously known as minority interest) in the acquiree. The new standard is expected to have a significant effect on business combinations occurring in reporting periods beginning on or after 1 July 2009.

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

HKFRS 9 Financial instruments

The standard is effective for accounting periods beginning on or after 1 January 2013 and addresses the classification and measurement of financial assets. The new standard reduces the number of measurement categories of financial assets and all financial assets will be measured at either amortised cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Fair value gains and losses will be recognised in profit or loss except for those on certain equity investments which will be presented in other comprehensive income. The directors are currently assessing the possible impact of the new standard on the Group's results and financial position in the first year of application.

HKAS 27 Consolidated and separate financial statements (Revised 2008)

The revised standard is effective for accounting periods beginning on or after 1 July 2009 and introduces changes to the accounting requirements for the loss of control of a subsidiary and for changes in the Group's interest in subsidiaries. Total comprehensive income must be attributed to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. The directors do not expect the standard to have a material effect on the Group's financial statements.

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.

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

4.1 Critical accounting estimates and assumptions *(continued)*

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 reporting date.

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 reporting date.

Depreciation on plant and equipment

The Group depreciates its plant and equipment in accordance with the accounting policy stated in Note 2.5. 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 reporting date.

4.2 Critical judgements in applying the entity's accounting policies

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 reporting date. In addition, all internal activities related to the research and development of products is continuously monitored by the Group's management.

5. SEGMENT INFORMATION

The executive directors have identified the development, sale and distribution of smart card products, software and hardware and provision of smart card related services as the only business component in the internal reporting to the executive directors for their decisions about resources allocation and review of performance.

	2009
	HK$'000
Revenue	
From external customers	104,963
Reportable segment revenue	104,963
Bad debts written off	4
Bank interest expenses	35
Bank interest income	(14)
Depreciation and amortisation of non-financial assets	4,103
Loss on disposals of plant and equipment	25
Research and development expenses	13,473
Write-back of provision for inventories	(34)

	2008
	HK$'000
Revenue	
From external customers	96,094
Reportable segment revenue	96,094
Bad debts written off	53
Bank interest expenses	117
Bank interest income	(188)
Depreciation and amortisation of non-financial assets	3,741
Impairment losses on trade receivables	49
Loss on disposals of plant and equipment	56
Research and development expenses	10,419
Write-back of provision for inventories	(83)

5. SEGMENT INFORMATION *(continued)*

The totals presented for the Group's operating segment reconcile to the Group's key financial figures as presented in the financial statements as follows:

	2009 HK$'000	2008 HK$'000
Reportable segment profit	16,715	13,934
Finance costs	(299)	(387)
Unallocated corporate expenses	(1,012)	(1,017)
Profit before income tax	15,404	12,530

	2009 HK$'000	2008 HK$'000
Reportable segment assets	76,556	57,956
Other corporate assets	202	198
Group assets	76,758	58,154
Reportable segment liabilities	19,205	10,687
Deferred tax liabilities	564	258
Other corporate liabilities	1,084	1,397
Group liabilities	20,853	12,342

The Group's revenues from external customers are divided into the following geographical areas:

	Revenue from external customers	
	2009 HK$'000	2008 HK$'000
Middle East and Africa	7,029	7,466
The Americas	13,570	7,433
Asia Pacific	33,120	23,667
Europe	51,244	57,528
Total	104,963	96,094

The geographical location of customers is based on the location at which the services were provided or the goods delivered.

5. SEGMENT INFORMATION *(continued)*

Over 90% of the total assets and liabilities of the Group at the respective reporting dates were physically located and substantially employed in PRC and Hong Kong. Accordingly, no geographical segmental analysis of the Group's non-current assets is presented.

During 2009, two (2008: one) customers with whom transactions of each has exceeded 10% of the Group's revenue. Total revenue from these two (2008: one) customers accounted for 27% (2008: 28%) of the Group's revenue for the year. As at the reporting date, total trade receivables due from these two (2008: one) customers accounted for 41% (2008: 21%) of such balance.

6. REVENUE

The Group's principal activities are disclosed in Note 1 to the financial statements. Turnover of the Group is the revenue from these activities.

Revenue from the Group's principal activities recognised during the year is as follows:

	2009	2008
	HK$'000	*HK$'000*
Sale of smart card products, software and hardware	102,748	93,998
Smart card related services	2,215	2,096
Total	104,963	96,094

7. OTHER INCOME

	2009	2008
	HK$'000	*HK$'000*
Forfeiture of deposits	18	37
Interest income	14	188
Research and development service fee income	129	—
Sundry income	20	275
	181	500

8. FINANCE COSTS

	2009	2008
	HK$'000	*HK$'000*
Interest charges on bank loans		
– wholly repayable within five years	35	117
Bank charges	264	270
	299	387

9. PROFIT BEFORE INCOME TAX

	2009	2008
	HK$'000	*HK$'000*
Profit before income tax is arrived at after charging/ (crediting):		
Amortisation of development costs	2,041	2,272
Auditors' remuneration	307	280
Bad debts written off	4	53
Cost of inventories recognised as expense, including	51,204	50,827
– Write-back of provision for inventories *(Note 19)*	(34)	(83)
Depreciation	2,062	1,469
Impairment losses on trade receivables	—	49
Loss on disposals of plant and equipment	25	56
Net foreign exchange loss	32	144
Operating lease charges on land and buildings	2,306	1,927
Less: Amount included in research and development costs	(108)	(86)
	2,198	1,841
Total research and development expenses	14,180	10,442
Add: Amortisation of development costs	2,041	2,272
Less: Amount capitalised as development costs *(Note 18)*	(2,748)	(2,295)
Research and development expenses charged to profit or loss	13,473	10,419

10. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profit for the year.

Overseas tax refers to the Minimum Corporate Income Tax ("MCIT") in the Philippines. MCIT has been provided at 2% (2008: 2%) on gross income incurred in the Philippines during the year. 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 (2008: Nil).

	2009	2008
	HK$'000	*HK$'000*
Current tax		
– Hong Kong		
Current year	**2,796**	1,715
Over provision in previous year	**(22)**	—
	2,774	1,715
– Overseas		
Current year	**102**	73
Under provision in previous year	**3**	—
	105	73
	2,879	1,788
Deferred tax		
Current year *(Note 24)*	**306**	1,038
Total income tax expense	**3,185**	2,826

10. INCOME TAX EXPENSE *(continued)*

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

	2009 *HK$'000*	2008 *HK$'000*
Profit before income tax	15,404	12,530
Tax on profit before income tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	2,641	2,119
Tax effect of non-deductible expenses	840	523
Tax effect of non-taxable revenue	(125)	(18)
Tax effect of unused tax losses not recognised	183	162
Tax effect of prior years' unrecognised tax losses utilised this year	(335)	—
Tax effect of prior years' deferred tax recognised during the year	—	40
Over provision in previous year	(19)	—
Total income tax expense	3,185	2,826

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Of the consolidated profit attributable to the owners of the Company of HK$12,219,000 (2008: HK$9,704,000), a loss of HK$1,010,000 (2008: HK$917,000) has been dealt with in the financial statements of the Company.

12. DIVIDENDS

(a) Dividends attributable to the year:

	2009	2008
	HK$'000	*HK$'000*
Proposed dividend of HK1.1 cents per share (2008: HK0.8 cents)	**3,109**	2,254

The proposed dividend after the reporting date has not been recognised as a liability at the reporting date, but reflected as an appropriation of share premium (2008: share premium) for the year ended 31 December 2009.

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

	2009	2008
	HK$'000	*HK$'000*
Dividend in respect of the previous financial year, of HK0.8 cents per share (2008: HK0.4 cents)	**2,254**	1,127

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of HK$12,219,000 (2008: HK$9,704,000) and the weighted average 281,840,000 (2008: 281,800,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the profit attributable to owners of the Company of HK$12,219,000 (2008: HK$9,704,000) and the weighted average 282,964,000 (2008: 282,970,000) ordinary shares outstanding during the year, after adjusting for the effects of all dilutive potential ordinary shares.

The weighted average number of ordinary shares used in the calculation of diluted earnings per share is calculated based on the weighted average 281,840,000 (2008: 281,800,000) ordinary shares in issue during the year as used in the calculation of basic earnings per share plus the weighted average 1,124,000 (2008: 1,170,000) ordinary shares deemed to be issued at no consideration as if all the Company's share options had been exercised.

14. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	2009 *HK$'000*	2008 *HK$'000*
Wages and salaries	**24,493**	19,695
Pension costs - defined contribution plans	**896**	642
Total staff costs	**25,389**	20,337
Less : Amounts capitalised as development costs	**(1,895)**	(1,405)
	23,494	18,932

15. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

15.1 Directors' emoluments

	Director's fees *HK$'000*	Salaries, housing and other allowances and benefits in kind *HK$'000*	Discretionary bonuses *HK$'000*	Retirement scheme contributions *HK$'000*	Total *HK$'000*
2009					
Executive directors					
Mr Wong Yiu Chu, Denny	—	1,560	130	12	1,702
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	3,034	252	36	3,682

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

15.1 Directors' emoluments *(continued)*

	Director's fees *HK$'000*	Salaries, housing and other allowances and benefits in kind *HK$'000*	Discretionary bonuses *HK$'000*	Retirement scheme contributions *HK$'000*	Total *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

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2008: Nil).

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

15.2 Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included three (2008: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2008: two) individuals during the year are as follows:

	2009	2008
	HK$'000	*HK$'000*
Salaries and other emoluments	1,154	1,025
Discretionary bonuses	103	80
Retirement scheme contributions	24	24
	1,281	1,129

The emoluments fell within the following bands:

	2009	2008
Nil - HK$1,000,000	2	2

No emoluments were paid by the Group to the directors and the remaining two (2008: two) highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2008: Nil).

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For the year ended 31 December 2009

16. 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 2008					
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
Disposals	—	(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 and 1 January 2009					
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
Year ended 31 December 2009					
Opening net book amount	**669**	**359**	**1,897**	**615**	**3,540**
Additions	**58**	**125**	**1,366**	**2,619**	**4,168**
Disposals	**—**	**—**	**(13)**	**(13)**	**(26)**
Depreciation	**(477)**	**(144)**	**(863)**	**(578)**	**(2,062)**
Closing net book amount	**250**	**340**	**2,387**	**2,643**	**5,620**
At 31 December 2009					
Cost	**1,272**	**866**	**6,348**	**4,743**	**13,229**
Accumulated depreciation	**(1,022)**	**(526)**	**(3,961)**	**(2,100)**	**(7,609)**
Net book amount	**250**	**340**	**2,387**	**2,643**	**5,620**

17. INTERESTS IN SUBSIDIAIRES - COMPANY

	2009 *HK$'000*	2008 *HK$'000*
Unlisted shares, at cost	**14,004**	14,004
Amounts due from subsidiaries	**26,698**	21,420
	40,702	35,424

Amounts due from subsidiaries are non-interest bearing, unsecured and repayable on demand.

Particulars of the subsidiaries at 31 December 2009 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

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For the year ended 31 December 2009

17. INTERESTS IN SUBSIDIAIRES - 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
Advanced Card Systems GmbH	Germany, limited liability company	EUR25,000	—	100%	Sale and distribution of smart card products, software and hardware and the provision of smart card related services in Germany
ACS Technologies Limited	Hong Kong, limited liability company	1 ordinary share of HK$1 each	100%	—	Development, sale and distribution of smart card products, software and hardware and the provision of smart card related services in Hong Kong and the Philippines
ACS Technologies (Shenzhen) Limited	The PRC, wholly foreign owned enterprise	HK$9 million (2008 : HK$7 million)	—	100%	Development, sale and distribution of smart card products, software and hardware and the provision of smart card related services in the PRC

17. INTERESTS IN SUBSIDIAIRES - 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	Percentage of issued capital/ registered capital held by the Company Indirectly	Principal activities and place of operations
Logyi Limited	The PRC, wholly foreign owned enterprise	HK$3.5 million (2008: HK$1 million)	—	100%	Development of smart card products, software and hardware and the provision of smart card related services in the PRC
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

18. DEVELOPMENT COSTS - GROUP

	2009	2008
	HK$'000	*HK$'000*
Carrying amount at 1 January	**9,238**	9,215
Capitalised during the year	**2,748**	2,295
Amortisation charge	**(2,041)**	(2,272)
Carrying amount at 31 December	**9,945**	9,238
At 31 December		
Gross carrying amount	**29,159**	26,411
Accumulated amortisation and impairment losses	**(19,214)**	(17,173)
Net carrying amount	**9,945**	9,238

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

19. INVENTORIES - GROUP

	2009	2008
	HK$'000	*HK$'000*
Raw materials	**13,256**	8,969
Work in progress	**210**	250
Finished goods	**4,416**	2,910
	17,882	12,129

During the year, the Group reversed a provision of HK$34,000 (2008: HK$83,000) being part of inventory written down 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 statement of comprehensive income.

20. TRADE AND OTHER RECEIVABLES, DEPOSITS PAID AND PREPAYMENTS

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade receivables - net	**17,096**	7,970	**—**	—
Deposits paid	**718**	675	**—**	—
Prepayments	**1,208**	630	**202**	197
Other receivables	**459**	332	**—**	1
	19,481	9,607	**202**	198

The directors of the Group consider that the fair values of trade and other receivables, deposits paid and prepayments which are expected to be recovered within one year are not materially different from their carrying amounts because these balances have short maturity periods on their inception.

The fair values of trade and other receivables, deposits paid and prepayments which are expected to be recovered after one year are HK$593,000 (2008: HK$816,000).

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

Customers are generally granted credit terms of 30 to 60 days. Based on invoice dates, ageing analysis of trade receivables is as follows :

	Group	
	2009	2008
	HK$'000	*HK$'000*
0 - 30 days	**8,911**	3,821
31 - 60 days	**3,808**	3,357
61 - 90 days	**3,169**	569
Over 90 days	**1,208**	223
	17,096	7,970

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. Movement in the provision for impairment of trade receivables is as follows:

	2009	2008
	HK$'000	*HK$'000*
Balance at 1 Januany	**—**	477
Impairment loss recognised	**—**	49
Amount written off during the year	**—**	(526)
Balance at 31 December	**—**	—

At each reporting date the Group reviews receivables for evidence of impairment on both an individual and collective basis. 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.

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.

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

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

	2009	2008
	HK$'000	*HK$'000*
Not yet past due	7,533	5,993
1 - 90 days past due	8,370	1,855
91 - 180 days past due	1,189	121
Over 180 days past due	4	1
	17,096	7,970

As at 31 December 2009, trade receivables of HK$7,533,000 (2008: HK$5,993,000) was neither past due nor impaired. These related to a large number of diversified customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired related to a large number of diversified customers that had a good track record of credit with the Group. Based on past credit history, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered to be fully recoverable. As at 31 December 2009, other than sales deposits of HK$43,000 (2008: Nil), the Group did not hold any collateral in respect of trade receivables past due but not impaired.

21. HELD-TO-MATURITY FINANCIAL ASSETS - GROUP

	2009	2008
	HK$'000	*HK$'000*
Treasury bills, at amortised cost	**20**	19

Treasury bills have a fixed yield of 4.6% (2008: 5.9%) and mature on 5 May 2010 (2008: 10 June 2009). Interest of HK$691 (2008: HK$860) 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.

22. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash at bank and in hand	**22,796**	17,810	**447**	5,004
Short-term bank deposits	**1,014**	4,914	**—**	3,900
Cash and cash equivalents	**23,810**	22,724	**447**	8,904
Pledged time deposits	**—**	897	**—**	—

Short-term bank deposits earn between 0.01% and 0.4% interest per annum (2008: between 0.04% and 4.63%) and have a maturity of one month. These deposits 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 short-term bank deposits is not materially different from their carrying amount because of the short maturity period on their inception.

Pledged time deposits earned 0.1% interest per annum (2008: between 0.1% and 4.19%) and have a maturity of one month.

Included in bank and cash balances of the Group is HK$2,667,000 (2008: HK$637,000) 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 the banks that are authorised to conduct foreign exchange business.

23. TRADE PAYABLES, DEPOSITS RECEIVED AND ACCRUALS

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables	**13,123**	6,429	**—**	—
Deposits received	**2,213**	729	**—**	—
Accruals	**4,126**	3,769	**257**	240
	19,462	10,927	**257**	240

The Group was generally granted by its suppliers credit periods of 30 to 60 days. Based on the invoice dates, ageing analysis of trade payables is as follows:

	2009	2008
	HK$'000	*HK$'000*
0 - 30 days	**4,957**	3,506
31 - 60 days	**5,717**	2,663
61 - 90 days	**1,533**	—
Over 90 days	**916**	260
	13,123	6,429

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

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

24. DEFERRED TAX LIABILITIES – GROUP

Movements in deferred tax liabilities/(assets) (prior to offsetting of balances within the same taxation jurisdiction) during the year are as follows:

	Accelerated tax depreciation *HK$'000*	Tax losses *HK$'000*	Total *HK$'000*
At 1 January 2008	241	(1,021)	(780)
Charged to profit or loss	17	1,021	1,038
At 31 December 2008 and 1 January 2009	258	—	258
Charged to profit or loss	306	—	306
At 31 December 2009	**564**	—	**564**

The Group has unrecognised tax losses of HK$4,339,000 (2008: HK$4,735,000) to carry forward against future taxable income. These amounts related to the tax losses incurred in the PRC and will be expired at various dates up to and including 2014 under the current tax legislation.

25. SHARE CAPITAL

	2009		2008	
	Number of shares *'000*	*HK$'000*	Number of shares *'000*	*HK$'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:				
At 1 January	**281,800**	**28,180**	281,800	28,180
Issue of shares upon exercise of share options	**800**	**80**	—	—
At 31 December	**282,600**	**28,260**	281,800	28,180

On 14 December 2009 the Company issued share capital of HK$80,000 due to the exercise of 800,000 share options by a consultant. Total proceeds received was HK$72,000 and the balance of HK$8,000 was charged to the share premium account.

26. SHARE-BASED EMPLOYEE COMPENSATION

Pursuant to resolutions of the shareholders passed on 27 October 2003, a share option scheme (the "Scheme") was adopted to replace the share option scheme dated 25 July 2000 (the "Old Scheme"). Options were granted under the 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 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 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 Scheme is valid and effective for a period commencing on 27 October 2003 and ending on the day immediately prior to 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 Scheme shall remain in full force and effect.

The weighted average closing share price immediately before the date on which the share options were exercised was HK$0.35.

The options outstanding at 31 December 2009 had an exercise price of HK$0.09 or HK$0.24 (2008: HK$0.09 or HK$0.24) and a weighted average remaining contractual life of 2.1 years (2008: 2.6 years).

At 31 December 2009, total number of shares available for issue under the Scheme was 1,463,245 (2008: 2,263,245), representing approximately 0.5% (2008: 0.8%) of the issued share capital of the Company at that date.

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

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

Year ended 31 December 2009

			Number of share options						
Grantees	Date granted	Balance as at 1 January 2009	Granted during the year	Exercised during the year	Lapsed during the year	Balance as at 31 December 2009	Period during which the options are exercisable	Exercise price per share	Percentage of the Company's issued share capital as at 31 December 2009
Consultant & employees	27 October 2003	1,361,607	—	(800,000)	—	561,607 *(Note 1)*	10 May 2004 to 24 July 2010	HK$0.09	0.20%
Employees	27 October 2003	862	—	—	—	862 *(Note 1)*	10 May 2004 to 27 December 2010	HK$0.09	0.01%
	27 October 2003	900,776	—	—	—	900,776 *(Note 2)*	10 May 2004 to 20 January 2013	HK$0.24	0.32%
		2,263,245	—	(800,000)	—	1,463,245			

Year ended 31 December 2008

			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
Consultant & employees	27 October 2003	1,361,607	—	—	—	1,361,607 *(Note 1)*	10 May 2004 to 24 July 2010	HK$0.09	0.48%
Employees	27 October 2003	862	—	—	—	862 *(Note 1)*	10 May 2004 to 27 December 2010	HK$0.09	0.01%
	27 October 2003	900,776	—	—	—	900,776 *(Note 2)*	10 May 2004 to 20 January 2013	HK$0.24	0.32%
		2,263,245	—	—	—	2,263,245			

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

Notes:

(1) These options vested and were exercisable since 10 May 2004. 800,000 share options were exercised by a consultant during the year ended 31 December 2009.

(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, cancelled or lapsed during the years ended 31 December 2008 and 2009.

27. RESERVES

Company

	Share premium HK$'000	Accumulated losses HK$'000	Proposed dividend HK$'000	Total HK$'000
Balance at 1 January 2008	23,206	(6,183)	1,127	18,150
2007 dividends approved *(Note 12)*	—	—	(1,127)	(1,127)
2008 dividends proposed *(Note 12)*	(2,254)	—	2,254	—
Loss and total comprehensive loss for the year	—	(917)	—	(917)
Balance at 31 December 2008	20,952	(7,100)	2,254	16,106
2008 dividends approved *(Note 12)*	—	—	(2,254)	(2,254)
2009 dividends proposed *(Note 12)*	(3,109)	—	3,109	—
Issue of shares upon exercise of share options	(8)	—	—	(8)
Loss and total comprehensive loss for the year	—	(1,010)	—	(1,010)
Balance at 31 December 2009	**17,835**	**(8,110)**	**3,109**	**12,834**

27. RESERVES *(continued)*

Company *(continued)*

Under the Companies Law (2009 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.

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

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 pages 45 to 46 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.

28. OPERATING LEASE COMMITMENTS

Group – as lessee

At the reporting date, the total future minimum lease payments payable by the Group under non-cancellable operating leases are as follows:

	2009	2008
	HK$'000	*HK$'000*
Within one year	**1,621**	2,002
In the second to fifth years, inclusive	**929**	1,046
	2,550	3,048

The Group leases a number of properties under operating leases. The leases run for an initial period of one to five years, with an option to renew the lease and renegotiate 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 2008 and 2009.

29. RELATED PARTY TRANSACTIONS

Details of the transactions between the Group and its related parties are summarised below.

Key management of the Group are members of the board of directors and senior managment. Key management personnel remuneration includes the following expenses:

	2009	2008
	HK$'000	*HK$'000*
Key management personnel remuneration		
– Salaries and other short-term employee benefits	6,265	6,207
– Retirement benefits costs	96	96
	6,361	6,303

At 31 December 2009, the Company has given corporate guarantees to one of its wholly owned subsidiary to the extent of HK$6,000,000 (2008: HK$7,000,000) for certain banking facilities granted, which remained unused as at 31 December 2008 and 2009.

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 market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

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 statement of financial position relate to the following categories of financial assets and financial liabilities.

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets				
Loans and receivables				
Trade receivables	**17,096**	7,970	**—**	—
Other receivables	**459**	332	**—**	1
Pledged time deposits	**—**	897	**—**	—
Cash and cash equivalents	**23,810**	22,724	**447**	8,904
Amounts due from subsidiaries	**—**	—	**26,698**	21,420
	41,365	31,923	**27,145**	30,325
Held-to-maturity financial assets	**20**	19	**—**	—
	41,385	31,942	**27,145**	30,325

30. FINANCIAL RISK MANAGEMENT *(continued)*

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

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial liabilities				
At amortised cost				
Trade payables	**13,123**	6,429	**—**	—
Accruals	**4,126**	3,769	**257**	240
	17,249	10,198	**257**	240

30.2 Currency risk

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's exposures to currency risk arise from its overseas sales and purchases, which are primarily denominated in Euro, United Stated Dollars ("US$") and RMB. These are not functional currencies of the Group entities to which these transactions related.

At 31 December 2009, if HK$ had weakened/strengthened by 5% against Euro with all other variables held constant, profit after income tax for the year would have been HK$899,000 higher/lower (2008: HK$20,000 lower/higher), mainly as a result of foreign exchange gains/losses on translation of Euro. The Group does not hedge its foreign currency risk with Euro. However, management monitors the foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

As HK$ is pegged to US$, accordingly the Group does not have significant exposure to risk resulting from changes in the foreign currency exchange rates of US$.

In relation to the fluctuation on RMB against HK$, the directors consider that exchange risk arising from those currencies does not have significant financial impact to the Group.

No hedging or other alternatives have been implemented during the year. 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 Currency risk *(continued)*

Summary of exposure

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

Group

		2009	
	Euro	US$	RMB
	HK$'000	*HK$'000*	*HK$'000*
Loans and receivables			
Trade receivables	6,827	6,606	2
Other receivables	70	5	—
Cash and cash equivalents	11,137	6,647	28
Trade payables and accruals	(46)	(3,907)	(1,647)
Gross exposure arising from recognised financial assets and liabilities	17,988	9,351	(1,617)

30. FINANCIAL RISK MANAGEMENT *(continued)*

30.2 Currency risk *(continued)*

Summary of exposure (continued)

Group

	2008				
	Euro	US$	RMB	Peso	CAD
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Loans and receivables					
Trade receivables	—	7,331	620	—	—
Other receivables	38	16	—	277	—
Pledged time deposits	—	897	—	—	—
Cash and cash equivalents	48	18,790	674	91	42
Held-to-maturity financial assets	—	—	—	19	—
Trade payables and accruals	(479)	(3,109)	(1,342)	(204)	(19)
Gross exposure arising from recognised financial assets and liabilities	(393)	23,925	(48)	183	23

Company

	2009
	US$
	HK$'000
Loans and receivables	
Cash and cash equivalents	**302**
Gross exposure arising from recognised financial assets and liabilities	**302**

30. FINANCIAL RISK MANAGEMENT *(continued)*

30.2 Currency risk *(continued)*

Summary of exposure (continued)

Company

	2008
	US$
	HK$'000
Loans and receivables	
Other receivables	1
Cash and cash equivalents	7,698
Gross exposure arising from recognised financial assets and liabilities	7,699

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.

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 time deposits which bear floating interest rates. At 31 December 2009, if interest rates had increased or decreased by 0.5% (2008: 0.5%) and all other variables were held constant, the Group's profit for the year would be increased or decreased by approximately HK$97,000 (2008: HK$85,000). This is mainly attributable to the Group's exposure to floating interest rates of the short-term bank deposits and pledged time 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 2008 has been prepared on the same basis.

30. FINANCIAL RISK MANAGEMENT *(continued)*

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 from its investing activities.

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

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade and other receivables	**17,555**	8,302	**—**	1
Held-to-maturity financial assets	**20**	19	**—**	—
Amounts due from subsidiaries	**—**	—	**26,698**	21,420
Pledged time deposits	**—**	897	**—**	—
Cash and cash equivalents	**23,810**	22,724	**447**	8,904
	41,385	31,942	**27,145**	30,325

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 time 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 that are settled by cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of trade payables and its financing obligations, and also in respect of its cash flow management. The Group's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term.

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

Analysed below is the Group's and Company's remaining contractual maturities for its non-derivative financial liabilities as at 31 December 2008 and 2009. 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 can be required to pay.

30. FINANCIAL RISK MANAGEMENT *(continued)*

30.5 Liquidity risk *(continued)*

Group

	2009			
	Within 1 year or on demand *HK$'000*	Between 1 and 2 years *HK$'000*	Between 2 and 5 years *HK$'000*	Over 5 years *HK$'000*
Current liabilities				
Trade payables	13,123	—	—	—
Accruals	4,126	—	—	—
	17,249	—	—	—

Group

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

Company

	2009			
	Within 1 year or on demand *HK$'000*	Between 1 and 2 years *HK$'000*	Between 2 and 5 years *HK$'000*	Over 5 years *HK$'000*
Current liabilities				
Accruals	257	—	—	—

30. FINANCIAL RISK MANAGEMENT *(continued)*

30.5 Liquidity risk *(continued)*

Company

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

The Group considers expected cash flows from financial assets in assessing and managing liquidity risk, in particular, its cash resources and other liquid assets that readily generate cash. The Group's existing cash resources and other liquid assets significantly exceed the cash outflow requirements.

30.6 Fair value

At the reporting date, the Group has no financial instruments that are stated at fair value. The directors of the Company consider that the fair values of its financial assets including 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.

31. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders by pricing goods and services commensurately with the level of risk.

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 the owners of the Company. The gearing ratios at 31 December 2008 and 2009 were zero as the Group has no borrowing or debt.

FINANCIAL SUMMARY

31 December

	2009	2008	2007	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
RESULTS					
Revenue	**104,963**	96,094	59,326	43,165	38,853
Cost of sales	**52,521**	51,625	29,678	20,092	21,808
Gross profit	**52,442**	44,469	29,648	23,073	17,045
Gross profit margin	**50%**	46%	50%	53%	44%
Profit for the year	**12,219**	9,704	4,306	2,564	196
Net profit margin	**12%**	10%	7%	6%	1%
ASSETS AND LIABILITIES					
Total assets	**76,758**	58,154	45,623	37,388	36,482
Total liabilities	**20,853**	12,342	8,351	4,472	6,130
Total equity	**55,905**	45,812	37,272	32,916	30,352