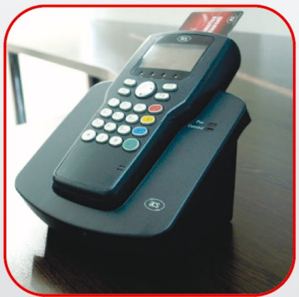
Advanced Card Systems Holdings Limited
龍傑智能卡控股有限公司 *

(incorporated in the Cayman Islands with limited liability)

Stock code: 8210



* *For identification only*

Annual Report 2010

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This document, for which the directors of Advanced Card Systems Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

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

BDO Limited
Certified Public Accountants
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

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British West Indies

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Kowloon Bay
Hong Kong

PRINCIPAL BANKERS

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
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
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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" or "ACS"), I am pleased to present the Group's annual results for the year ended 31 December 2010.

After growing in five consecutive years to 2009, the Group's sales revenue in year 2010 decreased by 11% to HK$93.7 million from HK$105.0 million in 2009. Gross profit decreased by a smaller percentage of 3% owing to higher gross profit margin. Owing primarily to the increase in headcount in the offices in Hong Kong, Guangdong and the Philippines, the expenses increased. The net profit after tax was reduced to HK$4.4 million in 2010 from HK$12.2 million in 2009.

Founded in 1995, ACS had its 15th anniversary in 2010. In the first ten years of doing business, ACS focused on developing and supplying PC-linked smart card readers and smart card operating systems. In these ten years, ACS built a range of technologies for these types of product. It also had established a broad base of customers located in dozens of countries in the world. Such a foundation paved the way for ACS to win sales and profit in the subsequent years.

Around 2005, ACS began to diversify itself into the business of developing more sophisticated smart card products and solutions. The business of PC-linked smart card readers and operating systems generated profit to sustain the continual development of these more sophisticated products and solutions. The Group continued to grow in sales and profitability for five consecutive years to 2009 despite heavy investments to prepare for such new offerings.

At this stage, there is a need to devote more time and engineering resources to perfect our products and services. Henceforth, we have during the year increased our headcount particularly in engineering staff.

The complex products pose higher challenges in other areas also, such as in enterprise resource planning (ERP), production subcontracting and quality control. These challenges slowed down our business in 2010 to a certain extent. In 2010, the Group strengthened its capability in these areas by using a more powerful ERP system, expanding its purchasing and logistic team and enhancing its operating procedures.

Despite the drop in sales due partly to the uncertain economic conditions of the major buyers' countries and partly to our diversion of efforts to build products and services of higher value, we remain optimistic of the Group's future as we are well positioned to take on the challenges ahead. Indeed a lot of opportunities have yet to be explored in association with the launching of value-added products and services, the ever-improving customer relationships, and our capability to manage and deliver products of quality.

CHAIRMAN'S STATEMENT

After receiving the 2009 Best Practices Award "Product Quality Leadership Award for Smart Card Readers" from Frost & Sullivan, ACS was honoured again in 2010. It was selected as one of Forbes Asia's "200 Best Under a Billion" among the nearly 13,000 public companies in the region. We are pleased to have won such recognition, and would like to take this opportunity to express our appreciation to the Group's staff for their dedication and hard work during the years, to the three independent non-executive directors for their advices, and to our business partners and shareholders for their continual support.

WONG Yiu Chu, Denny
Chairman

Hong Kong, 25 March 2011

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's sales revenue in year 2010 decreased by 11% to HK$93.7 million from HK$105.0 million in 2009. The Group sells its products to over 100 countries in the world and these countries are grouped into four regions. Europe and Asia Pacific recorded drops in sales and the other two regions showed increases.

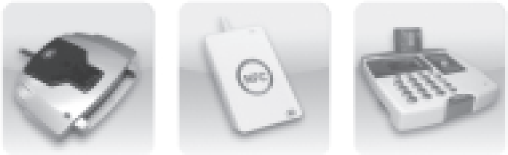
Europe has been the biggest region accounting for 45% of the total sales in 2010 and 49% in 2009. The three countries that continued to account for the biggest sales in Europe were Belgium, Italy and Spain. Other countries relatively more important to ACS were Poland, Turkey and Russia. Fewer shipments were made in 2010 to Italy and Spain partially accounting for the reduced sales in 2010 in Europe.

During the year, six hundred thousand smart cards with proprietary operating system was made to a developing country in Asia for use as "Emigrant clearance cards" for the government to monitor their citizens leaving and entering their country to work abroad. This represents a new application of the Group's smart cards and could imply an opportunity for the Group to sell to other countries.

Sales increase was recorded in the Americas region with the main growth in Latin America where our smart card readers were used in the government and the private sectors with one major use for the taxation card project in Brazil where the government requires tax payers to report tax return online using a smart card and reader to prove identity.

The sales in the Middle East and Africa region, considered an emerging region for ACS types of product, also increased. It is expected that the growth in these regions will accelerate in 2011.

	2010	2009	Change
	HK$'000	*HK$'000*	
Europe	**42,500**	51,244	-17%
Asia Pacific	**28,651**	33,120	-13%
The Americas	**14,609**	13,570	+8%
Middle East and Africa	**7,969**	7,029	+13%
	93,729	104,963	-11%



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(continued)*

Gross profit decreased by a smaller percentage of 3% to HK$50.6 million in 2010 from HK$52.4 million in 2009 owing to higher gross profit margin in 2010. It is the Group's policy to invest heavily in research and development. With new state-of-the-art products liked by customers, the Group managed to increase its gross profit margin to 54% in 2010 versus 50% in 2009.

	2010	2009	Change
	HK$'000	*HK$'000*	
Revenue	**93,729**	104,963	-11%
Cost of sales	**(43,086)**	(52,521)	-18%
Gross profit	**50,643**	52,442	-3%
Gross profit margin	**54%**	50%	
Other income	**211**	181	+17%
Administrative expenses	**(19,952)**	(15,852)	+26%
Research and development expenses	**(13,857)**	(13,473)	+3%
Selling and distribution costs	**(10,393)**	(7,595)	+37%
Finance costs	**(441)**	(299)	+47%
Total expenses	**(44,643)**	(37,219)	+20%
Profit before income tax	**6,211**	15,404	-60%
Income tax expense	**(1,777)**	(3,185)	-44%
Profit for the year	**4,434**	12,219	-64%

In 2010, the Group continued to expand its work force in Hong Kong, Guangdong and the Philippines and brought the headcount to 216 at 31 December 2010 from 171 a year ago. An increased headcount caused increases not only in salary and benefits costs but also in accompanying costs such as office space, equipment deployed, travelling, etc. The total expenses increased to HK$44.6 million in 2010 from HK$37.2 million in 2009. With the drop in gross profit amount and increase in total expenses, the profit before income tax dropped by 60% to HK$6.2 million and the profit after income tax dropped by 64% to HK$4.4 million.

FINANCIAL REVIEW *(continued)*

	2010	2009	Change
	HK$'000	*HK$'000*	
ASSETS AND LIABILITIES			
Non-current assets			
Plant and equipment	**6,918**	5,620	+23%
Development costs	**15,166**	9,945	+52%
	22,084	15,565	+42%
Current assets			
Inventories	**26,708**	17,882	+49%
Trade receivables	**14,509**	17,096	-15%
Other receivables, deposits paid and prepayments	**2,688**	2,385	+13%
Held-to-maturity financial assets	**36**	20	+80%
Tax recoverable	**393**	—	N/A
Cash and cash equivalents	**15,323**	23,810	-36%
	59,657	61,193	-3%
Current liabilities			
Trade payables, deposits received and accruals	**13,609**	19,462	-30%
Bank borrowings	**10,051**	—	N/A
Provision for taxation	**—**	827	-100%
	23,660	20,289	+17%
Net current assets	**35,997**	40,904	-12%
Total assets less current liabilities	**58,081**	56,469	+3%
Non-current liabilities			
Deferred tax liabilities	**641**	564	+14%
Net assets	**57,440**	55,905	+3%
EQUITY			
Share capital	**28,316**	28,260	+0%
Reserves	**29,124**	27,645	+5%
Total equity	**57,440**	55,905	+3%

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(continued)*

Plant and equipment increased 23% mainly owing to the headcount increase with the corresponding increase in PC, furniture and fixture, and equipment used for research and development.

Development costs increased 52% owing to the expanded engineering work force and the resulting bigger payroll and other costs.

Inventory level rose by 49% along with the needs to carry out more pilot runs of new products. The enhanced ERP would enable the Group to conduct more efficient order placing and stock keeping.

The amount of trade receivables dropped by 15% to HK$14.5 million, not much different from the rate of the sales drop (by 11%). Historically, ACS has had a good record of debt collection and the amount of bad debt has been minimal.

The drop of trade payables, deposits received and accruals by 30% to HK$13.6 million did not mean major changes in payment terms. It indicates that the purchasing and the subsequent retirement of the trade payables may fluctuate.

The Group took advantage of the low interest environment and the relaxed credit market by making more active use of banking facilities made available to them to pay down the payables and to fund the expenditures on research and development. Relative to the past approach of only applying internal resources to support its operations, the Group believes that proper gearing could magnify return to shareholders equity and to build long term banking relationships. As such, a term loan and other banking facilities were arranged and drawn down. Despite the resultant changes in the statement of financial position components with lower calculated current ratio (from 3.0 to 2.5) and higher debt/equity ratio (from 0.37 to 0.42), the available un-utilized credit facilities, the good asset quality, the strong potential for growth and the likelihood to maintain the present level of gross profit margin would ensure its liquidity under acceptable leverage.

DIVIDEND

The board of directors (the "Board") does not recommend the payment of a dividend in respect of the year ended 31 December 2010 (2009: HK1.1 cents per share). 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.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Business strategy

The Group's business strategy is continually to develop smart card operating systems, smart card readers and terminals as well as smart card based solutions, particularly automatic fare collection solutions for public transportation systems.

Since the inception of its business, ACS has had a mission to be a technology-intensive company. Smart cards and the readers to read them and write on them are used primarily for identification, authentication, payment and other purposes where either money or security are the main elements. Quality and compliance to international standards are two main requirements by serious customers. ACS emphasizes on meeting these important requirements.

Public awards and customer satisfaction survey results constantly reflect the achievements of the Group in satisfying customer and attaining high quality.

ACS places equal importance to the compliance to industry standard. There are certain international standards that are important to the smart card industry, such as the PC/SC (personal computer - smart card) standard initiated by Microsoft for PC-linked smart card readers or EMV (Europay, Mastercard and Visa) standard for various smart card readers. The Group always attempts to become one of the world's pioneers to attain such compliances for its core products.

There are also national standards established by some countries, especially countries with a big market of smart cards. The main countries having national standards are China, USA, Germany and Japan.

The Group has been attempting to get its core products certified against these national standards also. Such certifications usually take time to achieve owing to language barriers, accessibility to information and samples as well as high certification costs. The Group succeeded in getting some of its core products certified against some of these national standards including the FIPS (Federal Information Processing Standard) primarily for the USA market, the PBOC (The People's Republic of China) standard and the German BSI ("Federal Office for Information Security" in English) standard and is expanding its horizons.

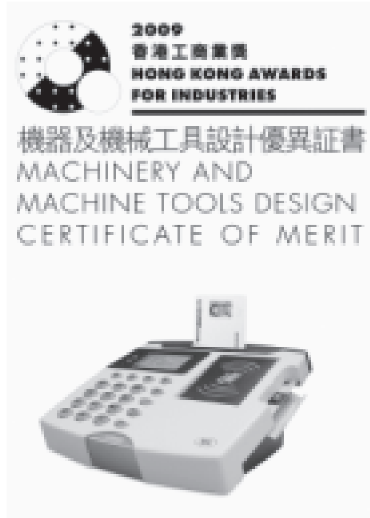
The Group has its main offices in Hong Kong being its headquarters location, Manila and Guangdong with the strengths of these offices combined to maximize the Group's productivity to undertake research development, sales and marketing, technical support services and operations work.

The Group continued also to develop a web-based enterprise management solution called "Enterprise Collaboration Platform" for internal use and for the commercial market. A trial launch of this program for the commercial market was made in 2010. It was later found that the marketing cost could be high. Thus the management decided to concentrate on developing the program for internal use first and would consider to make a full commercial launch when resources are more available.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(continued)*

Awards



The Group's smart card terminal designed for medical card applications, model eH880, was awarded the "2009 Hong Kong Awards for Industries: Machinery and Machine Tools Design Certificate of Merit".

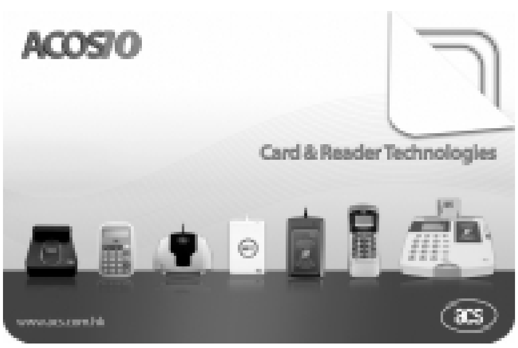
The Hong Kong Awards for Industries (HKAI), championed by the Hong Kong Government, evaluates and rewards annually the outstanding achievements of Hong Kong enterprises in their technology advancement and value-added endeavors. ACS participated in the competition under the Machinery and Machine Tools design category, and its eH880 terminal which was honored the Certificate of Merit.

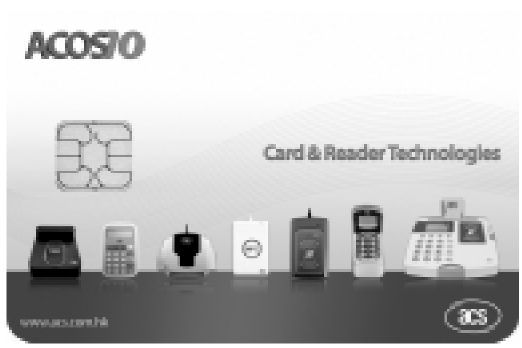
In addition, ACS was selected to be one of Forbes Asia's "200 Best Under a Billion" companies in Asia Pacific among 12,930 public companies with actively traded shares and sales between US$5 million and US$1 billion.

Main products introduced to the market in 2010

Smart card compliant to PBOC2.0 standard (ACOS10)

The Group launched in December 2010 the dual interface smart card with contact and contactless functions using one single chip in the card. It is in compliance with the PBOC2.0 (The People's Bank of China version 2.0) ED/EP (Electronic Debit/ Electronic Purse) standard.





MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(continued)*

Main products introduced to the market in 2010 *(continued)*

Smart card compliant to PBOC2.0 standard (ACOS10) *(continued)*

PBOC2.0 is a national standard in China, and is very similar to EMV2000. ACOS10 was accredited with the PBOC2.0 certification after passing a series of stringent tests including electrical, mechanical, reliability and, secure command and transaction testing.

ACOS10 EDEP is propelled by the ACOS10 Card Operating System, which is compliant with ISO7816 parts 1-4 and allows users to write multiple applications in one card.

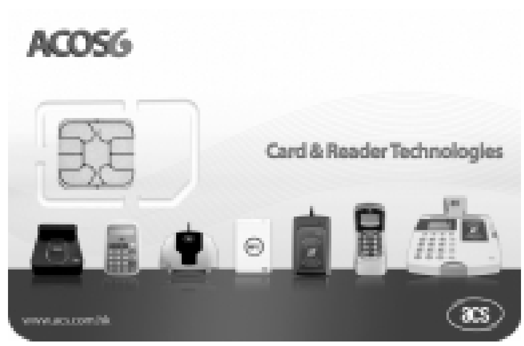
ACOS10 is capable of doing various transactions:

- Credit load
- Credit unload
- Purchase
- Cash withdrawal
- Overdraw limit update
- Balance inquiry
- Transaction log review

In short, the ACOS10 EDEP card is to be used by banks for payment solutions. It can be used as an electronic purse for, say, public transportation and can be used as an ATM card. Money can be drawn from the user's saving account online and placed in the card.

Smart card used as security access model (ACOS6)

In January 2011, a card operating system for contact smart cards, Model ACOS6, to be used as a security access module (SAM) was launched by the Group. While a micro-processor card has intelligence to challenge a smart card terminal to verify if the latter is legitimate by virtue of the micro-processor intelligence and the operating system inside, the SAM card to be inserted into a smart card terminal gives the intelligence to the terminal to challenge the card to verify if the card is legitimate. To develop the operating system of a SAM card requires in-depth knowledge of the card software. The Group's achievement to develop the SAM card is a milestone in the technology advancement of ACS in card operating system development.



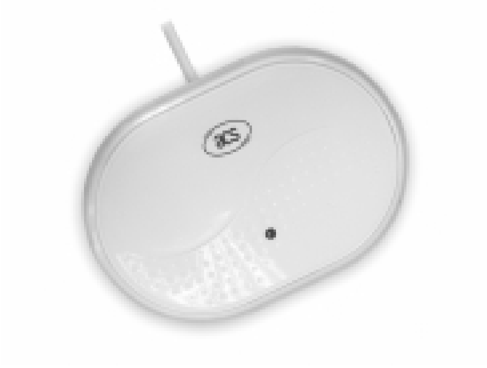
MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(continued)*

Main products introduced to the market in 2010 *(continued)*

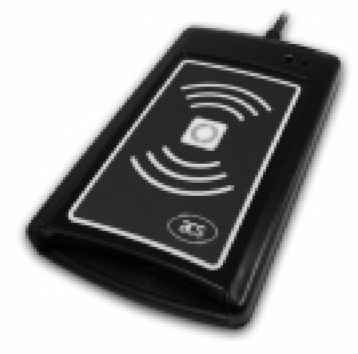
PC-linked smart card reader compliant to FIPS standard (ACR3801)

The USA market is one of the biggest markets of PC-linked smart card readers. The biggest user is the Department of Defense (DoD), which often requires such readers to be compliant to the FIPS (Federal Information Processing Standard) standard. A new reader compliant to the FIPS standard was officially launched to the market in winter 2010.



ACR1281 German market (ACR1281)

In its strategy to provide smart card readers in compliance with the national standards of nations of big market size, ACS managed to get its contactless reader, ACR1281, to be in compliance with the German BSI ("Federal Office for Information Security" in English) standard. The reader is to support and write on the German ID card. Germany started to issue smart cards with a contactless smart card chip in November 2010.



Physical access control device

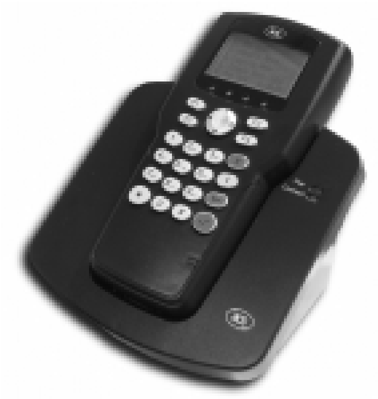
The physical access control device developed for a global company in physical access control solution was launched to the market. It is a terminal to be mounted at the doors of buildings. Its several versions include functions to support contactless cards, pin entries, finger print scanning, etc. Pilot productions were completed in year 2010 and the customer is launching the devices together with their back end software as total solutions to the world market.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(continued)*

Main products introduced to the market in 2010 *(continued)*

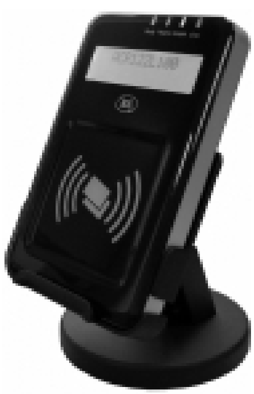
Portable POS terminal supporting contactless cards (ACR880)



In March 2010, ACR880, considered to be a portable version of the eH880 launched in the previous year, was launched to the market.

The Group had 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 electro-magnetic interface standards, EMV standards, low power consumption feature and faultless GPRS support.

Smart card reader with liquid crystal display (ACR122L)



In December 2010, the Group launched to the market ACR122L, a contactless reader with a liquid crystal display. The device is to be connected to a point of sales terminal to accept contactless cards primarily for payment use. It caters for retail merchants to accept transit cards for non-transit uses. Contactless cards are gaining worldwide popularity in being used to pay fares for public transportation and to make small payments in retail outlets.

MANAGEMENT DISCUSSION AND ANALYSIS

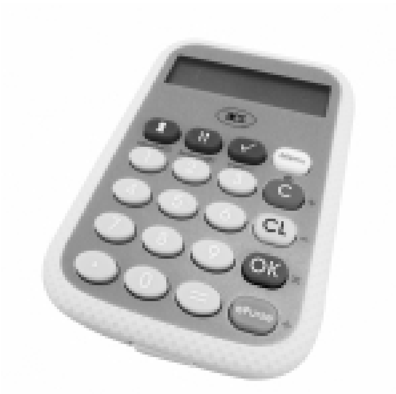
BUSINESS REVIEW *(continued)*

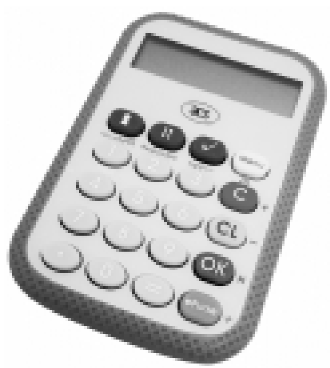
Main products introduced to the market in 2010 *(continued)*

One-Time Password (OTP) generator (APG8202)

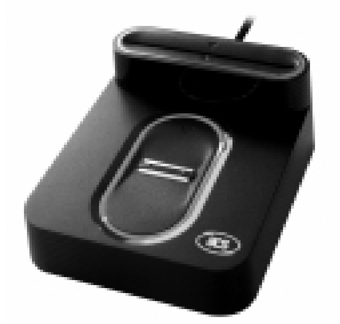
The Group launched in October 2010, an OTP generator, APG8202, compliant to Mastercard and Visa standards. It is a compact, standalone, low-cost, handheld smart card device that contains a numeric keypad and a display. It can be used in a variety of payment and banking applications as well as used to ensure secure access to the network for firms and institutes.

To operate the device, the cardholder inserts the EMV payment card (e.g. a smart card based credit card, something you have) 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 enter this password into the PC to enhance security and perform such acts as placing an order on the telephone, making payments or performing e-banking on the Internet.





Contact smart card reader integrated with a finger print scanner (AET65)



At the end of year 2010, ACS was performing its pilot production runs of a contact smart card reader integrated with a swipe finger print scanner, the AET65. The reader is meant for the logical access control market. There are various tools to improve the security of access to the PC and to the Internet. The use of biometrics to identify a person is considered one of the methods to achieve the highest security. The finger print of the authentic user is stored in the smart card. To access the Internet, the user will swipe his finger on the finger print sensor. The finger print template thus captured will be compared with the template stored in the card. When the two templates match, the holder of the card is taken as the legitimate holder. ACS has an existing model of AET63 which has similar functions but uses a full-sized finger print scanner. The swipe scanner owing to the smaller silicon chip permits a lower cost of AET65 compared with the cost of AET63 and presents a new market which accepts lower costing.

MANAGEMENT DISCUSSION AND ANALYSIS

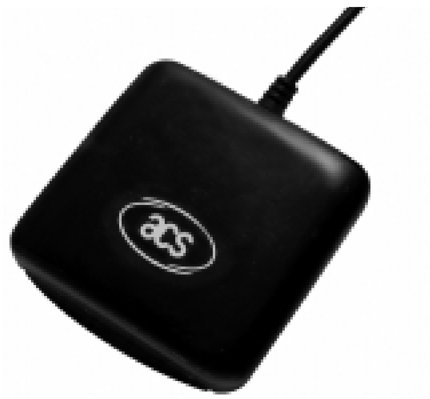
BUSINESS REVIEW *(continued)*

Main products being developed in 2010

Smart card operating system used in debit/credit card (ACOS11 PBOC 2.0 DC)

At the end of 2010, ACS was developing this card operating system for smart cards which are to be used in debit and credit cards in China. This card operating system is to follow the PBOC 2.0 standard by The People's Republic of China. It is the Chinese version of the EMV (Europay, Mastercard and Visa) 2.0 standard commonly used outside China. The Chinese government has a plan to have all the credit cards (now using magnetic strip cards) issued in China to use smart card chips by the end of year 2015. This card operating system is meant to be used in such smart card based credit cards.

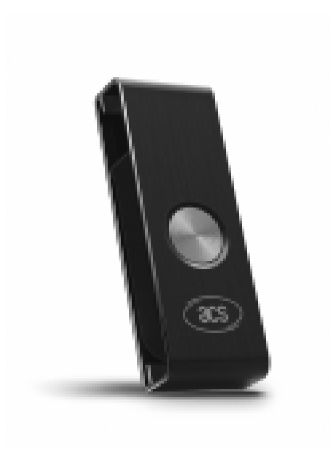
PC-linked reader for contact smart card (ACR39)

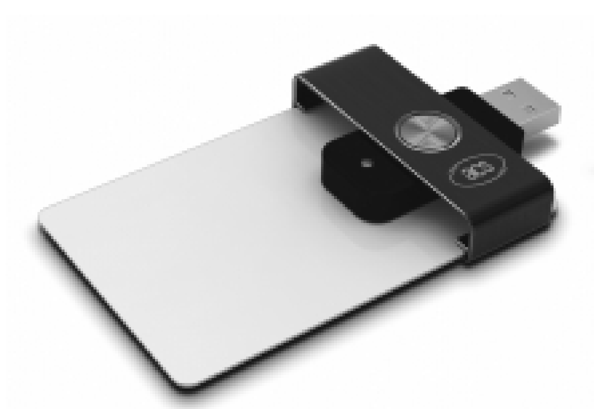


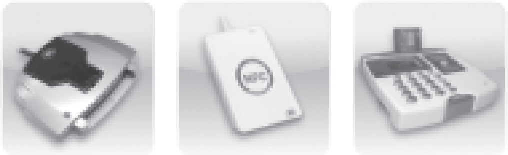
The ACR39 is the successor of the Group's very successful ACR38U product line and acts as a new generation PC-linked reader with a higher speed. ACR39 has improved features such as a higher speed in operation and has programmable software capability (i.e. upgrading the firmware in a simple process by using a PC rather than by resorting to the cumbersome work in the factory), serial interface on top of USB interface, etc.

PC-linked reader for contact smart card with a new form factor (ACR38U-N1)

At 31 December 2010, ACS was completing the development of a small-sized reader to accept the ISO7816 sized card (with the dimension of a standard credit card). It can be plugged into the PC using the USB plug and is much more portable than the standard version of PC-linked reader with a full-size casing and a cable.





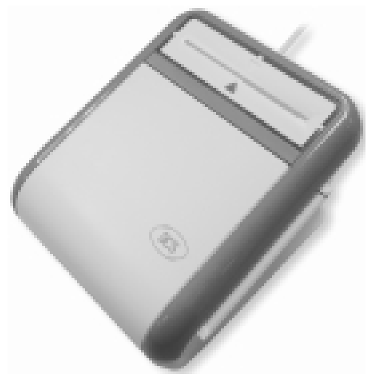


MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(continued)*

Main products being developed in 2010 *(continued)*

PC-linked reader with multiple card slots (ACR33U)



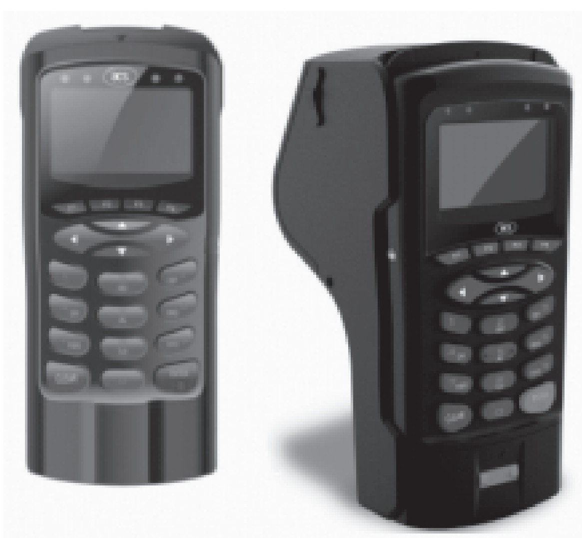
ACS was completing the development of the ACR33 reader for the target market of "social security card" application in China. The reader has two card slots accepting standard-sized smart cards, e.g. a patient card and a medical professional card. It has three SAM (secure access model) slots inside to accept SIM-sized smart cards (with the size of the SIM card commonly used in mobile phones) provided by organizers of the social security systems. The reader can be used in other countries.

Dual interface smart card reader (ACR1281)

At the end of 2010, ACS was launching a new model of smart card reader to support contactless cards: ACR1281. The reader was certified in August 2010, to be compliant with the qPBOC (quick People's Bank of China) standard, a standard for contactless payment with the debit/credit application process adjusted and optimized to meet the faster transaction speed requirement in micropayment. The accreditation opens up opportunities to the Group to serve the banking market in China.

Portable smart card terminal to support contact smart card (ACR89)

ACS was developing a portable terminal to accept contact smart cards, ACR89. The reader represents a stronger version of its predecessor ACR88. The ACR89 has two standard ISO7816 sized slots to accept standard-sized contact smart cards and three SAM card slots to accept SIM-sized cards. It uses a cost effective 32-bit micro-processor and has also a printer. There are two more planned stages of development with contactless card support in Stage 2 and finger print scanner support in Stage 3. The product could be used in smart card applications requiring a portable device. One prime application is micro-payment.

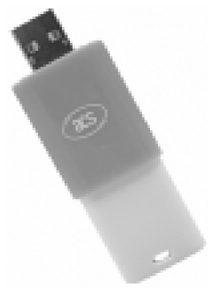


MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(continued)*

Main products being developed in 2010 *(continued)*

Flash drive integrated with micro-SD card reader (ACR101)



ACS was developing a pocket-size device with SIM-sized card slot accepting contact smart card, contactless smart card and micro-SD card to expand its product portfolio.

The reader has an extractable USB plug to be inserted into the PC and the device has the function of the popular flash drive but at the same time by accepting a smart card embedded into its slot, it can protect the security of the data stored in the SD card of flash.

Contactless smart card reader integrated with a finger print scanner (AET62)

At 31 December 2010, ACS was also completing the development and pilot production of the contactless card version of Model AET62. The functions of AET62 and AET65 are essentially the same except that AET62 accepts a contactless smart card and AET65 accepts a contact smart card.

Attending trade shows and other promotion activities

In 2010, the Group attended ten trade shows in the world including one in Macao, three in Hong Kong, one in the mainland of China, one in Singapore, one in Japan, two in Africa and one in Europe. The Group's delegates gave speeches at various trade shows. These occasions presented the opportunities for them to learn about the market, spread our presence, meet old customers and develop new business relationships.

Other marketing activities include having interviews by and press releases in the public media, advertising in magazines, developing product websites, issuing newsletters, etc. ACS had its 15th anniversary in 2010 and held a banquet for celebration in Hong Kong for staff members, customers, suppliers and other business partners. The Group also utilized the occasion to express its appreciation to business associates for their support and to update them with the latest development of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

In the five year period to the end of year 2010, ACS was deeply engaged in product research and development of a range of products which are more sophisticated than the PC-linked contact smart card readers and proprietary card operating systems that fall into the two main product lines in the first ten years of the business of ACS. ACS also developed its automatic fare collection solution applications. These products and applications are more challenging to develop, to produce and to ensure quality of. The Group coped with a lot of such challenges and obstacles and proved its capability to include these products and services into its offering.

While serving customers of various sizes all over the world, ACS exerted substantial efforts to serve several global customers located in the USA, Europe and Japan, some of them with annual sales of well over US$10 billion. These companies are extremely demanding in product features, industry standard compliance and quality. It takes a long time to perfect the products developed with their specification. In almost of all the projects, ACS has remained to be the owners of the intellectual properties. Among the more sophisticated products developed for these global companies were a physical access control terminal designed for a company in USA, a bus validator for deducting fare for a leading automatic fare collection solution provider in USA and a POS (point of sale) terminal for a global company in Japan.

The lengthy development cycles demanded more than expected engineering resources, and owing to the delayed launching of products, the sales dropped by 11% in 2010 after growing for five years up to year 2009.

With more sophisticated products launched, with the production and logistics improved and with continuous strengthened customer relationships, the Group is witnessing new business opportunities emerging. The management expects a revival of the sales momentum starting the second half of 2011. The annual gross profit margin was at 53%, 50%, 46%, 50% and 54% for the five years up to year 2010. There is no reason to expect a substantial drop in gross profit margin for 2011 and 2012, and so with revived sales revenue and the increased productivity of the staff members in particular the engineering team which was expanded fast in the last two or three years, the bottom line is expected to rise again.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

At all times the Group maintains a healthy liquidity position. As at 31 December 2010, the Group's cash and cash equivalents amounted to HK$15.3 million (2009: HK$23.8 million). The Group keeps most of its cash in Hong Kong dollars ("HK$"), Euro, United States dollars ("US$") and Renminbi ("RMB") in bank accounts. The bank borrowings of the Group amounted to HK$10.1 million (2009: Nil). The bank borrowings are denominated in HK$ and US$, at floating rates and repayable within five years. The gearing ratio, being the total interest bearing debts over the total equity, at 31 December 2010 was 0.17 (2009: zero).

The Group's equity capital, bank borrowings, together with the profit generated from operations, has been applied to fund its working capital and other operational needs. The current ratio, being the ratio of current assets to current liabilities, was 2.5 (2009: 3.0). Net asset value as at the year end date was HK$57.4 million (2009: HK$55.9 million).

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 2010.

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$, the Group does not have significant exposure to risk resulting from changes in foreign currency exchange rates of US$ to HK$. In relation to the fluctuation on RMB against HK$, the Group considers that exchange risk arising from RMB does not have significant financial impact to the Group. When appropriate, hedging instruments including forward contracts would be used to manage the foreign exchange exposure on Euro.

PLEDGE OF ASSETS

As at 31 December 2010, the Group did not pledge any of its assets.

CONTINGENT LIABILITIES

As at 31 December 2010, the Company had outstanding corporate guarantee of HK$18 million (plus accrued interest thereon) to banks in respect of banking facilities granted to its main subsidiary. Save as disclosed herein, the Group did not have any significant contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2010, the Group had 216 full time employees. Staff costs amounted to HK$26.1 million (2009: HK$23.5 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 63, 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 52, 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 58, 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 60, 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 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 60, 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 30 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 57, 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 39, 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 46, 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 47, 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 35, 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 36, is the Senior 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 25 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 2010.

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 21 to 22 of this Annual Report.

During the year ended 31 December 2010, 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.

CORPORATE GOVERNANCE REPORT

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 2010. Due notice and board papers were given to all directors prior to the meeting in accordance with the GEM Listing Rules and the Code. Details of individual attendance of directors are set out below:

	Name of director	Attended/ Eligible to attend
Executive directors	Wong Yiu Chu, Denny *(Chairman)*	3/4
	Tan Keng Boon	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. Their appointments were further renewed for two years commencing from 1 June 2010.

CORPORATE GOVERNANCE REPORT

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

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

NOMINATION OF DIRECTORS

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

AUDITORS' REMUNERATION

For the year ended 31 December 2010, the fee payable to the auditors in respect of audit services amounted to HK$338,000.

AUDIT COMMITTEE

The audit committee is primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of that auditors; to review the Company's financial controls, internal controls and risk management systems; and to review the financial statements of the Company.

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

The audit committee held five 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)*	5/5
	Yip Chak Lam, Peter	5/5
	Wong Yick Man, Francis	5/5

Set out below is the summary of work performed by the audit committee during the year ended 31 December 2010:

(1) to make recommendation to the Board on the appointment 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;

(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 42 to 43 of this Annual Report. There are no material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROL

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

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

COMMUNICATION WITH SHAREHOLDERS

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

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

At the 2010 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 2010 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 2010.

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 18 to the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the year are set out in note 6 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

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

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	19%	—
Five largest customers in aggregate	35%	—
The largest supplier	—	14%
Five largest suppliers in aggregate	—	40%

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 2010 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 44 to 107.

The directors do not recommend the payment of a dividend for the year ended 31 December 2010.

RESERVES

Profit for the year of HK$4,434,000 (2009: HK$12,219,000) 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 29 to the financial statements.

REPORT OF THE DIRECTORS

PLANT AND EQUIPMENT

Details of the movements in plant and equipment of the Group are set out in note 17 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 27 and 28 to the financial statements respectively. Shares were issued during the year in respect of the share options being exercised by a consultant and an employee.

DIRECTORS

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

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

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

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

DIRECTORS' SERVICE CONTRACTS

The executive directors, Mr. Wong Yiu Chu, Denny, Mr. Tan Keng Boon and Ms. Tsui Kam Ling, Alice, have entered into service agreements with the Company which were renewed for further two years from 27 October 2008 to 26 October 2010 and then for further two years from 27 October 2010 to 26 October 2012. 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. Their appointments were further renewed for two years commencing from 1 June 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 2010, 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:

	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 2010
Mr. Wong Yiu Chu, Denny (Note 2)	80,768,000	43,962,522	—	—	124,730,522	44.05%
Ms. Tsui Kam Ling, Alice (Note 3)	43,962,522	80,768,000	—	—	124,730,522	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 43,962,522 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 43,962,522 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.

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

Save as disclosed above, to the best knowledge of the directors of the Company, as at 31 December 2010, 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 25 March 2011.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEMES *(continued)*

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

(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.

(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.

SHARE OPTION SCHEMES *(continued)*

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

At 31 December 2010, the employees of the Group had the following interests in options to subscribe for shares of the Company (market value per share at 31 December 2010 was HK$0.37) with an exercise price of 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.

Grantees	Date granted	Number of share options Balance as at 1 January 2010	Granted during the year	Exercised during the year	Lapsed during the year	Balance as at 31 December 2010	Period during which the options are exercisable	Exercise price per share	Percentage of the Company's issued share capital as at 31 December 2010
Consultant & Employees	27 October 2003	561,607	—	560,910 (Note 1)	697 (Note 2)	—	10 May 2004 to 24 July 2010	HK$0.09	—
Employees	27 October 2003	862	—	—	862 (Note 2)	—	10 May 2004 to 27 December 2010	HK$0.09	—
	27 October 2003	900,776	—	—	—	900,776 (Note 3)	10 May 2004 to 20 January 2013	HK$0.24	0.32%
		1,463,245	—	560,910	1,559	900,776			

Notes:

1 560,910 share options at an exercise price of HK$0.09 each have been exercised by a consultant and an employee during the year ended 31 December 2010. The weighted average closing price of the shares immediately before the date on which the options were exercised was HK$0.47.

2 The options lapsed upon the expiry of the options.

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

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

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

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

4 No option was granted or cancelled during the year.

SHARE OPTION SCHEMES *(continued)*

(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.

(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 (i.e. total 28,000,000 shares, which represents approximately 9.89% of the issued share capital as at 25 March 2011). Options lapsed in accordance with the terms of the Scheme shall not be counted for the purpose of calculating the Scheme Mandate Limit.

SHARE OPTION SCHEMES *(continued)*

(ii) Share Option Scheme *(continued)*

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

(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.

(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.

SHARE OPTION SCHEMES *(continued)*

(ii) Share Option Scheme *(continued)*

(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 2010 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 2010
Mr. Tjio Kay Loen (Note 2)	Beneficial owner and Other	24,880,000 shares (L)	8.79%
Warren Securities Limited	Beneficial owner	14,200,000 shares (L)	5.01%

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 Of these shares, 7,400,000 shares are held by Mr. Tjio Kay Loen personally, 14,800,000 shares, 680,000 shares and 2,000,000 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 2010 and to the best knowledge of the directors, there was no person (other than the directors and chief executive of the Company whose interests are set out in the paragraph "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above) had an interest or short position in the shares or underlying shares of the Company as recorded in the register to be kept under Section 336 of the SFO.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Based on the information available to the Company and within the knowledge and belief of the directors of the Company, none of the directors or the management shareholders of the Company (as defined under the GEM Listing Rules) have any interests in a business which competes or may compete with the business of the Group during the year.

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

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

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. The bank borrowings as at the year end amounted to HK$10.1 million and the details are set out in note 25 to the financial statements. Save as disclosed herein, there is no other outstanding balance of bank loans and other borrowings as at the year end.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group is set out on page 108 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$1,236,000 (2009: HK$896,000).

PUBLIC FLOAT

Based on the information available to the Company and within the knowledge and belief of the directors of the Company, the Company has maintained the prescribed amount of public float during the year and up to the date of this report as required under the GEM Listing Rules.

REPORT OF THE DIRECTORS

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 2010.

AUDITORS

The financial statements in respect of the previous two financial years were audited by Grant Thornton ("GTHK"), now known as JBPB & Co. Due to a merger of the businesses of GTHK and BDO Limited ("BDO") to practise in the name of BDO as announced on 26 November 2010, GTHK resigned and BDO was appointed as auditors of the Company effective from 29 November 2010. The financial statements for the year ended 31 December 2010 were audited by BDO.

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO as auditors of the Company.

By order of the Board

WONG Yiu Chu, Denny
Chairman

Hong Kong, 25 March 2011

INDEPENDENT AUDITOR'S REPORT

BDO

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香港干諾道中111號
永安中心25樓

To the shareholders 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") and its subsidiaries (together the "Group") set out on pages 44 to 107, which comprise the consolidated and company statements of financial position as at 31 December 2010, 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 information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, 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.

BDO Limited
Certified Public Accountants
Yu Tsui Fong
Practising Certificate No. P05440

Hong Kong, 25 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Notes	2010	2009
		HK$'000	*HK$'000*
Revenue	7	93,729	104,963
Cost of sales		(43,086)	(52,521)
Gross profit		50,643	52,442
Other income	8	211	181
Administrative expenses		(19,952)	(15,852)
Research and development expenses		(13,857)	(13,473)
Selling and distribution costs		(10,393)	(7,595)
Finance costs	9	(441)	(299)
Profit before income tax	10	6,211	15,404
Income tax expense	11	(1,777)	(3,185)
Profit for the year		4,434	12,219
Other comprehensive income			
Exchange gain on translation of financial statements of foreign operations		160	56
Other comprehensive income		160	56
Total comprehensive income for the year		4,594	12,275
Earnings per share for profit attributable to the owners of the Company during the year	14		
Basic		HK1.57 cents	HK4.34 cents
Diluted		HK1.56 cents	HK4.32 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Plant and equipment	17	**6,918**	5,620
Development costs	19	**15,166**	9,945
		22,084	15,565
Current assets			
Inventories	20	**26,708**	17,882
Trade and other receivables, deposits paid and prepayments	21	**17,197**	19,481
Held-to-maturity financial assets	22	**36**	20
Tax recoverable		**393**	—
Cash and cash equivalents	23	**15,323**	23,810
		59,657	61,193
Current liabilities			
Trade payables, deposits received and accruals	24	**13,609**	19,462
Bank borrowings	25	**10,051**	—
Provision for taxation		**—**	827
		23,660	20,289
Net current assets		**35,997**	40,904
Total assets less current liabilities		**58,081**	56,469
Non-current liabilities			
Deferred tax liabilities	26	**641**	564
Net assets		**57,440**	55,905
EQUITY			
Share capital	27	**28,316**	28,260
Reserves	29	**29,124**	27,645
Total equity		**57,440**	55,905

WONG Yiu Chu, Denny
Director

TSUI Kam Ling, Alice
Director

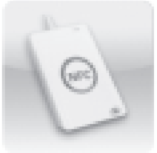
STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Notes	2010	2009
		HK$'000	*HK$'000*
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	18	**14,004**	14,004
Current assets			
Amounts due from subsidiaries	18	**22,547**	26,698
Prepayments	21	**165**	202
Cash and cash equivalents	23	**580**	447
		23,292	27,347
Current liabilities			
Accruals	24	**253**	257
Net current assets		**23,039**	27,090
Net assets / Total assets less current liabilities		**37,043**	41,094
EQUITY			
Share capital	27	**28,316**	28,260
Reserves	29	**8,727**	12,834
Total equity		**37,043**	41,094

WONG Yiu Chu, Denny
Director

TSUI Kam Ling, Alice
Director


CONSOLIDATED STATEMENT OF CASH FLOWS

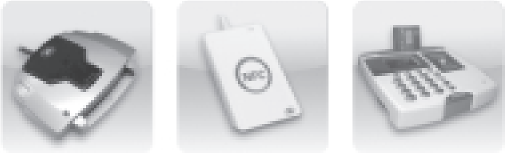
For the year ended 31 December 2010

	Notes	2010 *HK$'000*	2009 *HK$'000*
Cash flows from operating activities			
Profit before income tax		6,211	15,404
Adjustments for:			
Depreciation	10	2,770	2,062
Amortisation of development costs	10	2,103	2,041
Finance costs	9	441	299
Write-back of provision for inventories	10	(30)	(34)
Bad debts written off	10	—	4
Interest income	8	(15)	(14)
Loss on disposals of plant and equipment	10	3	25
Operating profit before working capital changes		11,483	19,787
Increase in inventories		(8,796)	(5,719)
Decrease/(Increase) in trade and other receivables, deposits paid and prepayments		2,284	(9,878)
(Decrease)/Increase in trade payables, deposits received and accruals		(5,853)	8,535
Cash (used in)/generated from operations		(882)	12,725
Income taxes paid		(2,920)	(3,209)
Net cash (used in)/generated from operating activities		(3,802)	9,516

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	Notes	2010 *HK$'000*	2009 *HK$'000*
Cash flows from investing activities			
Purchases of plant and equipment		(4,071)	(4,168)
Proceeds from disposals of plant and equipment		—	1
Payments to acquire held-to-maturity financial assets		(16)	(1)
Development costs capitalised		(7,324)	(2,748)
Interest received		15	14
Decrease in pledged time deposits		—	897
Net cash used in investing activities		(11,396)	(6,005)
Cash flows from financing activities			
Proceeds from shares issued upon conversion of share options		50	72
Proceeds from new borrowings		10,551	—
Repayment of borrowings		(500)	—
Dividend paid		(3,109)	(2,254)
Finance costs paid		(441)	(299)
Net cash generated from/(used in) financing activities		6,551	(2,481)
Net (decrease)/increase in cash and cash equivalents		(8,647)	1,030
Cash and cash equivalents at 1 January		23,810	22,724
Effect of foreign exchange rates changes		160	56
Cash and cash equivalents at 31 December		15,323	23,810



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Share capital HK$'000	Share premium HK$'000	Merger reserve HK$'000	Translation reserve HK$'000	(Accumulated loss)/ 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 13)	—	—	—	—	—	(2,254)	(2,254)
Issue of shares upon exercise of share options	80	(8)	—	—	—	—	72
Transactions with owners	80	(8)	—	—	—	(2,254)	(2,182)
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 13)	—	(3,109)	—	—	—	3,109	—
Balance at 31 December 2009	28,260	17,835	4,496	69	2,136	3,109	55,905

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Share capital *HK$'000*	Share premium *HK$'000*	Merger reserve *HK$'000*	Translation reserve *HK$'000*	(Accumulated loss)/ Retained profits *HK$'000*	Proposed dividend *HK$'000*	Total *HK$'000*
Balance at 1 January 2010	28,260	17,835	4,496	69	2,136	3,109	55,905
2009 dividends approved (Note 13)	—	—	—	—	—	(3,109)	(3,109)
Issue of shares upon exercise of share options	56	(6)	—	—	—	—	50
Transactions with owners	56	(6)	—	—	—	(3,109)	(3,059)
Profit for the year	—	—	—	—	4,434	—	4,434
Other comprehensive income							
– Exchange gain on translation of financial statements of foreign operations	—	—	—	160	—	—	160
Total comprehensive income for the year	—	—	—	160	4,434	—	4,594
Balance at 31 December 2010	**28,316**	**17,829***	**4,496***	**229***	**6,570***	**—***	**57,440**

* The aggregated amount of the above balances of HK$29,124,000 (2009: HK$27,645,000) represented the reserves in the consolidated statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

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 18 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 2010 were approved for issue by the board of directors on 25 March 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements on pages 44 to 107 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") and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also include the applicable disclosure requirements of 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 the historical cost convention. The measurement bases are fully described in the accounting policies below.

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

2.1 Basis of preparation *(continued)*

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 Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Business combination from 1 January 2010

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interest either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

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

2.2 Business combination and basis of consolidation *(continued)*

Business combination prior to 1 January 2010

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connected with business combinations were capitalised as part of the cost of the acquisition.

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 the Company's statement of financial position, subsidiaries are carried at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend 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 or 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.

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

2.4 Foreign currency translation *(continued)*

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.

2.5 Plant and equipment

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

Depreciation is provided to write off the cost less their residual values 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 and sales 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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 weighted average cost 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. Details of the change in accounting policy are set out in Note 5 to the financial statements.

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.

2.10 Financial liabilities

The Group's financial liabilities mainly include bank borrowings, 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.

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

2.10 Financial liabilities *(continued)*

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

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 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

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The Group as lessee

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

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.

2.15 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.

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

2.15 Revenue recognition *(continued)*

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 not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they may be 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.

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 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

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

2.17 Employee benefits *(continued)*

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).

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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, fiscal 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 fiscal 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.

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.

The measurement policies the Group uses for reporting segment results under HKFRS8 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 and tax recoverable 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 REVISED HKFRSs

(a) Adoption of new/revised HKFRSs - effective 1 January 2010

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 2010:

HKFRSs (Amendments)	Improvements to HKFRSs
Amendments to HKAS 39	Eligible Hedged Items
Amendments to HKFRS 2	Share-based Payment – Group Cash-settled Share-based Payment Transactions
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) – Interpretation 17	Distributions of Non-cash Assets to Owners
HK Interpretation 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Except as explained below, the adoption of these new HKFRSs has no significant impact on the Group's financial statements.

HK Interpretation 5 – Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

The Interpretation is a clarification of an existing standard, HKAS 1 Presentation of Financial Statements. It sets out the conclusion reached by the HKICPA that a term loan which contains a clause which gives the lender the unconditional right to demand repayment at any time shall be classified as a current liability in accordance with paragraph 69(d) of HKAS 1 irrespective of the probability that the lender will invoke the clause without cause.

In order to comply with the requirements of HK Interpretation 5, the Group has changed its accounting policy on the classification of term loans that contain a repayment on demand clause. Under the new policy, term loans with clauses which give the lender the unconditional right to call the loan at any time are classified as current liabilities in the statement of financial position. Previously such term loans were classified in accordance with the agreed repayment schedule unless the Group had breached any of the loan covenants set out in the agreement as of the reporting date or otherwise had reason to believe that the lender would invoke its rights under the immediate repayment clause within the foreseeable future.

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

(a) Adoption of new/revised HKFRSs - effective 1 January 2010 *(continued)*

HK Interpretation 5 – Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause (continued)

As at 31 December 2010, a bank loan (that are repayable more than one year after the end of the reporting period but contain a repayment on demand clause) with the aggregate carrying amount of HK$4,300,000 has been classified as current liabilities. The application of HK Interpretation 5 has had no impact on the reported profit or loss for the current and prior years nor the financial position as at 31 December 2009.

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

HKFRSs (Amendments)	Improvements to HKFRSs 2010[2&3]
Amendments to HKAS 32	Classification of Rights Issues[1]
Amendments to HK(IFRIC) – Interpretation 14	Prepayments of a Minimum Funding Requirement[3]
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments[2]
Amendments to HKFRS 7	Disclosure – Transfers of Financial Assets[4]
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets[5]
HKFRS 9	Financial Instruments[6]

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2012
6 Effective for annual periods beginning on or after 1 January 2013

The amendments to HKFRS 7 improve the derecognition disclosure requirements for transfer transactions of financial assets and allow users of financial statements to better understand the possible effects of any risks that may remain with the entity on transferred assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

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

(b) New/revised HKFRSs that have been issued but are not yet effective *(continued)*

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs and the directors so far concluded that the application of these new/revised HKFRSs will have no material impact on the Group's financial statements.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

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

Critical judgements in applying accounting policies and key sources of estimation uncertainty are discussed below.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

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.

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.

5. CHANGE IN ACCOUNTING POLICY

The cost of the Group's inventories was 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 at 31 December 2009.

During the year, the Group changed its accounting policy in its inventory valuation and the cost of inventories is determined using weighted average cost method. The Group considers that a weighted-average unit cost can be applied to the units in the ending inventory so that it better smoothes out differences in price changes in a reporting period. Subsequent to the change in accounting policy, management believes that using the weighted average cost results in more relevant presentation of the Group's performance for the reporting period.

In accordance with HKAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, change in accounting policy has been accounted for retrospectively.

The unit cost of inventory did not have material fluctuation during the years ended 31 December 2009 and 2010. Accordingly, the change in accounting policy has had no material effect on the consolidated statement of financial position as at 1 January 2009, 31 December 2009 and 2010, and the comparative figures have not been restated and the third statement of financial position as at 1 January 2009 is not presented.

6. 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.

	2010
	HK$'000
Revenue	
From external customers	**93,729**
Reportable segment revenue	**93,729**
Bank interest expenses	**112**
Bank interest income	**(15)**
Depreciation and amortisation of non-financial assets	**4,873**
Loss on disposals of plant and equipment	**3**
Research and development expenses	**13,857**
Write-back of provision for inventories	**(30)**
Reportable segment assets	**81,183**
Additions to non-current segment assets during the year	**11,395**
Reportable segment liabilities	**23,407**

	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)
Reportable segment assets	76,556
Additions to non-current segment assets during the year	6,916
Reportable segment liabilities	19,205

6. 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:

	2010 *HK$'000*	2009 *HK$'000*
Reportable segment profit	7,644	16,715
Finance costs	(441)	(299)
Unallocated corporate expenses	(992)	(1,012)
Profit before income tax	6,211	15,404

	2010 *HK$'000*	2009 *HK$'000*
Reportable segment assets	81,183	76,556
Tax recoverable	393	–
Other corporate assets	165	202
Group assets	81,741	76,758

	2010 *HK$'000*	2009 *HK$'000*
Reportable segment liabilities	23,407	19,205
Deferred tax liabilities	641	564
Other corporate liabilities	253	1,084
Group liabilities	24,301	20,853

The Company is an investment holding company incorporated in Cayman Islands where the Group does not have any activities. The Group has the majority of its operation in Hong Kong, and therefore, Hong Kong is considered as the Group's country of domicile for the purpose of the disclosure as required by HKFRS 8 "Operating Segments".

6. SEGMENT INFORMATION *(continued)*

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

	Revenue from external customers	
	2010	2009
	HK$'000	*HK$'000*
Middle East and Africa	**7,969**	7,029
The Americas	**14,609**	13,570
Asia Pacific	**28,651**	33,120
Europe	**42,500**	51,244
Total	**93,729**	104,963

For the year ended 31 December 2010, the Group's revenues from external customers attributed to Italy and PRC accounted for approximately HK$17,961,000 and HK$9,631,000 respectively. The Group's revenues from external customers attributed to other countries accounted for less than 10% of the Group's revenue each.

For the year ended 31 December 2009, the Group's revenues from external customers attributed to Italy, PRC and Spain accounted for approximately HK$15,509,000, HK$13,862,000 and HK$13,061,000 respectively. The Group's revenues from external customers attributed to other countries accounted for less than 10% of the Group's revenue each.

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

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.

For the year ended 31 December 2010, one customer with whom transactions has exceeded 10% of the Group's revenue. Total revenue from this one customer accounted for 19% of the Group's revenue for the year. As at 31 December 2010, total trade receivables due from this one customer accounted for 27% of such balance.

For the year ended 31 December 2009, two customers with whom transactions of each has exceeded 10% of the Group's revenue. Total revenue from these two customers accounted for 15% and 12% of the Group's revenue for the year respectively. As at 31 December 2009, total trade receivables due from these two customers accounted for 27% and 14% of such balance respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

7. REVENUE

Revenue, which is also the Group's turnover, represents:

	2010	2009
	HK$'000	*HK$'000*
Sale of smart card products, software and hardware	91,575	102,748
Smart card related services	2,154	2,215
Total	93,729	104,963

8. OTHER INCOME

	2010	2009
	HK$'000	*HK$'000*
Forfeiture of deposits	7	18
Interest income	15	14
Research and development service fee income	143	129
Sundry income	46	20
	211	181

9. FINANCE COSTS

	2010	2009
	HK$'000	*HK$'000*
Interest charges on bank borrowings		
– wholly repayable within five years	112	35
Bank charges	329	264
	441	299

The analysis shows the finance costs of bank borrowings, including term loans which contain a repayment on demand clause, in accordance with the agreed scheduled repayments dates set out in the loan agreements. For the year ended 31 December 2010, the interest on term loans which contain a repayment on demand clause amounted to HK$68,000 (2009: Nil).

10. PROFIT BEFORE INCOME TAX

	2010	2009
	HK$'000	*HK$'000*
Profit before income tax is arrived at after charging/(crediting):		
Amortisation of development costs	**2,103**	2,041
Auditors' remuneration	**338**	307
Bad debts written off	**—**	4
Cost of inventories recognised as expense, including	**42,057**	51,204
– Write-back of provision for inventories (Note 20)	**(30)**	(34)
Depreciation	**2,770**	2,062
Loss on disposals of plant and equipment	**3**	25
Operating lease charges on land and buildings	**2,891**	2,306
Less: Amount included in research and development costs	**(133)**	(108)
	2,758	2,198
Total research and development expenses	**19,078**	14,180
Add: Amortisation of development costs (Note 19)	**2,103**	2,041
Less: Amount capitalised as development costs (Note 19)	**(7,324)**	(2,748)
Research and development expenses charged to profit or loss	**13,857**	13,473

11. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 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% (2009: 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 or had unused tax losses brought forward to offset against the current year's assessable profit (2009: Nil).

	2010	2009
	HK$'000	*HK$'000*
Current tax		
– Hong Kong		
Current year	1,570	2,796
Over provision in previous years	—	(22)
	1,570	2,774
– Overseas		
Current year	129	102
Under provision in previous years	1	3
	130	105
	1,700	2,879
Deferred tax		
Current year (Note 26)	77	306
Total income tax expense	1,777	3,185

11. INCOME TAX EXPENSE *(continued)*

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

	2010 *HK$'000*	2009 *HK$'000*
Profit before income tax	**6,211**	15,404
Tax on profit before income tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	**1,192**	2,641
Tax effect of non-deductible expenses	**366**	840
Tax effect of non-taxable revenue	**(228)**	(125)
Tax effect of unused tax losses not recognised	**487**	183
Tax effect of prior years' unrecognised tax losses utilised this year	**(41)**	(335)
Under/(Over) provision in previous years	**1**	(19)
Income tax expense	**1,777**	3,185

12. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Of the consolidated profit attributable to the owners of the Company of HK$4,434,000 (2009: HK$12,219,000), a loss of HK$992,000 (2009: HK$1,010,000) has been dealt with in the financial statements of the Company.

13. DIVIDENDS

(a) Dividends attributable to the year:

	2010	2009
	HK$'000	*HK$'000*
Proposed dividend (2009: HK1.1 cents per ordinary share)	—	3,109

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 for the year ended 31 December 2009.

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

	2010	2009
	HK$'000	*HK$'000*
Dividend in respect of the previous financial year, of HK1.1 cents per ordinary share (2009: HK0.8 cents)	3,109	2,254

14. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of HK$4,434,000 (2009: HK$12,219,000) and the weighted average 282,866,000 (2009: 281,840,000) 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$4,434,000 (2009: HK$12,219,000) and the weighted average 283,509,000 (2009: 282,964,000) 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 282,866,000 (2009: 281,840,000) ordinary shares in issue during the year as used in the calculation of basic earnings per share plus the weighted average 643,000 (2009: 1,124,000) ordinary shares deemed to be issued at no consideration as if all the Company's share options had been exercised.

15. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	2010	2009
	HK$'000	*HK$'000*
Wages and salaries	**30,509**	24,493
Pension costs - defined contribution plans	**1,236**	896
Total staff costs	**31,745**	25,389
Less: Amounts capitalised as development costs	**(5,682)**	(1,895)
	26,063	23,494

16. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

16.1 Directors' emoluments

	Director's fees	Salaries, housing and other allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2010					
Executive directors					
Mr Wong Yiu Chu, Denny	—	1,591	—	12	1,603
Mr Tan Keng Boon	—	766	60	12	838
Ms Tsui Kam Ling, Alice	—	773	60	12	845
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	3,130	120	36	3,646

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

16.1 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*
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

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2009: Nil).

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

16.2 Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included three (2009: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2009: two) individuals during the year are as follows:

	2010 *HK$'000*	2009 *HK$'000*
Salaries and other emoluments	1,099	1,154
Discretionary bonuses	104	103
Retirement scheme contributions	24	24
	1,227	1,281

The emoluments fell within the following bands:

	2010	2009
Nil - HK$1,000,000	2	2

No emoluments were paid by the Group to the directors and the remaining two (2009: two) highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2009: Nil).

17. 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 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
Year ended 31 December 2010					
Opening net book amount	**250**	**340**	**2,387**	**2,643**	**5,620**
Additions	**524**	**209**	**2,603**	**735**	**4,071**
Disposals	**—**	**—**	**(3)**	**—**	**(3)**
Depreciation	**(391)**	**(175)**	**(1,262)**	**(942)**	**(2,770)**
Closing net book amount	**383**	**374**	**3,725**	**2,436**	**6,918**
At 31 December 2010					
Cost	**1,739**	**1,072**	**8,828**	**5,475**	**17,114**
Accumulated depreciation	**(1,356)**	**(698)**	**(5,103)**	**(3,039)**	**(10,196)**
Net book amount	**383**	**374**	**3,725**	**2,436**	**6,918**

18. INTERESTS IN SUBSIDIAIRES - COMPANY

	2010 HK$'000	2009 HK$'000
Unlisted shares, at cost	**14,004**	14,004
Amounts due from subsidiaries	**22,547**	26,698
	36,551	40,702

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

Particulars of subsidiaries at 31 December 2010 are as follows:

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

18. 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
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	—	100%	Development, sale and distribution of smart card products, software and hardware and the provision of smart card related services in the PRC
Logyi Limited	The PRC, wholly foreign owned enterprise	HK$3.5 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
TaptoPay International Limited	Hong Kong, limited liability company	1 ordinary share of HK$1 each	100%	—	Investment holding
TaptoPay Limited	Hong Kong, limited liability company	1 ordinary share of HK$1 each	—	100%	Development and provision of products and solutions for automatic revenue collection

19. DEVELOPMENT COSTS - GROUP

	2010	2009
	HK$'000	*HK$'000*
Carrying amount at 1 January	**9,945**	9,238
Capitalised during the year	**7,324**	2,748
Amortisation charge	**(2,103)**	(2,041)
Carrying amount at 31 December	**15,166**	9,945
At 31 December		
Gross carrying amount	**36,483**	29,159
Accumulated amortisation and impairment losses	**(21,317)**	(19,214)
Net carrying amount	**15,166**	9,945

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

20. INVENTORIES - GROUP

	2010	2009
	HK$'000	*HK$'000*
Raw materials	**21,386**	13,256
Work in progress	**270**	210
Finished goods	**5,052**	4,416
	26,708	17,882

During the year, the Group reversed a provision of HK$30,000 (2009: HK$34,000) 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.

21. TRADE AND OTHER RECEIVABLES, DEPOSITS PAID AND PREPAYMENTS

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade receivables	**14,509**	17,096	**—**	—
Deposits paid	**1,013**	718	**—**	—
Prepayments	**956**	1,208	**165**	202
Other receivables	**719**	459	**—**	—
	17,197	19,481	**165**	202

The directors of the Company 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.

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

	Group	
	2010	2009
	HK$'000	*HK$'000*
0 - 30 days	**8,370**	8,911
31 - 60 days	**3,327**	3,808
61 - 90 days	**131**	3,169
Over 90 days	**2,681**	1,208
	14,509	17,096

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. As at 31 December 2010 and 2009, no allowance for impairment loss was made.

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.

21. 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:

	2010	2009
	HK$'000	*HK$'000*
Not yet past due	**9,024**	7,533
1 - 90 days past due	**3,597**	8,370
91 - 180 days past due	**1,776**	1,189
Over 180 days past due	**112**	4
	14,509	17,096

As at 31 December 2010, trade receivables of HK$9,024,000 (2009: HK$7,533,000) 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 2010, other than sales deposits of HK$155,000 (2009: HK$43,000), the Group did not hold any collateral in respect of trade receivables past due but not impaired.

22. HELD-TO-MATURITY FINANCIAL ASSETS – GROUP

	2010	2009
	HK$'000	*HK$'000*
Treasury bills, at amortised cost	**36**	20

Treasury bills have a fixed yield of 3.35% (2009: 4.6%) and mature on 2 February 2011 (2009: 5 May 2010). Interest of HK$447 (2009: HK$691) 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.

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash at bank and in hand	**14,323**	22,796	**580**	447
Short-term bank deposits	**1,000**	1,014	**—**	—
	15,323	23,810	**580**	447

Short-term bank deposits earn 0.18% interest per annum (2009: between 0.01% and 0.4%) 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.

Included in bank and cash balances of the Group is HK$2,511,000 (2009: HK$2,667,000) 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.

24. TRADE PAYABLES, DEPOSITS RECEIVED AND ACCRUALS

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables	**7,774**	13,123	**—**	—
Deposits received	**1,821**	2,213	**—**	—
Accruals	**4,014**	4,126	**253**	257
	13,609	19,462	**253**	257

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

	2010	2009
	HK$'000	*HK$'000*
0 - 30 days	**4,094**	4,957
31 - 60 days	**2,964**	5,717
61 - 90 days	**631**	1,533
Over 90 days	**85**	916
	7,774	13,123

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.

25. BANK BORROWINGS – GROUP

	2010	2009
	HK$'000	*HK$'000*
Trust receipt loans	4,551	—
Portion of term loan from a bank due for repayment within one year	1,200	—
Portion of term loan from a bank due for repayment after one year which contain a repayment on demand clause	4,300	—
	10,051	—

The bank borrowings, including the term loan repayable on demand, are carried at amortised cost. None of the portion of term loan due for repayment after one year which contain a repayment on demand clause and that is classified as current liability is expected to be settled within one year.

The Group's bank borrowings were due for repayable as follows:

	2010	2009
	HK$'000	*HK$'000*
Within one year or on demand	4,551	—
Portion of term loan due for repayment within one year	1,200	—
Term loans due for repayment after one year (Note a)		
After 1 year but within 2 years	1,200	—
After 2 year but within 5 years	3,100	—
	10,051	—

25. BANK BORROWINGS – GROUP *(continued)*

Notes:

(a) The amounts due are based on the scheduled repayment dates set out in the loan agreements and ignore the effect of any repayment on demand clause.

(b) The bank borrowings of HK$10,051,000 were secured by:

(i) corporate guarantees from the Company; and

(ii) guarantees from the Government of the Hong Kong Special Administrative Region, under the Special Loan Guarantee Scheme.

(c) As at 31 December 2010, bank borrowings amounting to HK$10,051,000 carried interest at HIBOR plus a spread.

26. DEFERRED TAX LIABILITIES – GROUP

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

	Accelerated tax depreciation *HK$'000*
At 1 January 2009	258
Charged to profit or loss	306
At 31 December 2009 and 1 January 2010	**564**
Charged to profit or loss	**77**
At 31 December 2010	**641**

The Group has unrecognised estimated tax losses of HK$7,114,000 (2009: HK$4,339,000) to carry forward against future taxable income. For certain subsidiaries operated in the PRC, unrecognised estimated tax loss of HK$4,163,000 (2009: HK$4,339,000) are subject to expiry periods of five years from the year in which the tax loss arose under the current tax legislation. The remaining estimated tax loss of HK$2,951,000 (2009: Nil) can be carried forward indefinitely.

27. SHARE CAPITAL

	2010		2009	
	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	**282,600**	**28,260**	281,800	28,180
Issue of shares upon exercise of share options	**561**	**56**	800	80
At 31 December	**283,161**	**28,316**	282,600	28,260

28. 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 of the Group and directors of the Company 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.

For the year ended 31 December 2010, the weighted average closing share price immediately before the date on which the share options were exercised was HK$0.47 (2009: HK$0.35).

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

The options outstanding at 31 December 2010 had an exercise price of HK$0.24 (2009: HK$0.09 or HK$0.24) and a weighted average remaining contractual life of 2.1 years (2009: 2.1 years).

At 31 December 2010, total number of shares available for issue under the Scheme was 900,776 (2009: 1,463,245), representing approximately 0.3% (2009: 0.5%) of the issued share capital of the Company at that date.

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

Year ended 31 December 2010

		Number of share options							
Grantees	Date granted	Balance as at 1 January 2010	Granted during the year	Exercised during the year	Lapsed during the year	Balance as at 31 December 2010	Period during which the options are exercisable	Exercise price per share	Percentage of the Company's issued share capital as at 31 December 2010
Consultant and employees	27 October 2003	561,607	—	(560,910)	(697)	—	10 May 2004 to 24 July 2010	HK$0.09	—
Employees	27 October 2003	862	—	—	(862)	—	10 May 2004 to 27 December 2010	HK$0.09	—
	27 October 2003	900,776	—	—	—	900,776 (Note 1)	10 May 2004 to 20 January 2013	HK$0.24	0.32%
		1,463,245	—	(560,910)	(1,559)	900,776			

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

Year ended 31 December 2009

Grantees	Date granted	Number of share options 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 and employees	27 October 2003	1,361,607	—	(800,000)	—	561,607	10 May 2004 to 24 July 2010	HK$0.09	0.20%
Employees	27 October 2003	862	—	—	—	862	10 May 2004 to 27 December 2010	HK$0.09	0.01%
	27 October 2003	900,776	—	—	—	900,776 (Note 1)	10 May 2004 to 20 January 2013	HK$0.24	0.32%
		2,263,245	—	(800,000)	—	1,463,245			

Notes:

(1) 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.

(2) No options were granted or cancelled during the years ended 31 December 2009 and 2010.

29. RESERVES

Company

	Share premium *HK$'000*	Accumulated losses *HK$'000*	Proposed dividend *HK$'000*	Total *HK$'000*
Balance at 1 January 2009	20,952	(7,100)	2,254	16,106
2008 dividends approved (Note 13)	—	—	(2,254)	(2,254)
Issue of shares upon exercise of share options	(8)	—	—	(8)
Transactions with owners	(8)	—	(2,254)	(2,262)
Loss and total comprehensive income for the year	—	(1,010)	—	(1,010)
2009 dividends proposed (Note 13)	(3,109)	—	3,109	—
Balance at 31 December 2009	17,835	(8,110)	3,109	12,834
2009 dividends approved (Note 13)	—	—	(3,109)	(3,109)
Issue of shares upon exercise of share options	(6)	—	—	(6)
Transactions with owners	(6)	—	(3,109)	(3,115)
Loss and total comprehensive income for the year	—	(992)	—	(992)
Balance at 31 December 2010	**17,829**	**(9,102)**	**—**	**8,727**

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.

29. RESERVES *(continued)*

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 49 to 50 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.

30. 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:

	2010	2009
	HK$'000	*HK$'000*
Within one year	**1,636**	1,621
In the second to fifth years, inclusive	**1,421**	929
	3,057	2,550

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 2009 and 2010.

31. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following transactions with related parties:

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

	2010	2009
	HK$'000	*HK$'000*
Key management personnel remuneration		
– Salaries and other short-term employee benefits	6,373	6,265
– Retirement benefits costs	96	96
	6,469	6,361

At 31 December 2010, the Company has given corporate guarantees to one of its wholly owned subsidiary to the extent of HK$18,000,000 (2009: HK$6,000,000) for certain banking facilities granted. As at 31 December 2009, the banking facilities remained unused.

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

32. 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.

32. FINANCIAL RISK MANAGEMENT *(continued)*

32.1 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	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets				
Loans and receivables				
Trade receivables	**14,509**	17,096	**—**	—
Other receivables	**719**	459	**—**	—
Cash and cash equivalents	**15,323**	23,810	**580**	447
Amounts due from subsidiaries	**—**	—	**22,547**	26,698
	30,551	41,365	**23,127**	27,145
Held-to-maturity financial assets	**36**	20	**—**	—
	30,587	41,385	**23,127**	27,145

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial liabilities				
At amortisated cost				
Trade payables	**7,774**	13,123	**—**	—
Accruals	**4,014**	4,126	**253**	257
Bank borrowings	**10,051**	—	**—**	—
	21,839	17,249	**253**	257

32. FINANCIAL RISK MANAGEMENT *(continued)*

32.2 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 2010, 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$292,000 (2009: HK$899,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Euro. Management monitors the foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

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

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.

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

Summary of exposure

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

Group

		2010	
	Euro	US$	RMB
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables	4,620	7,159	—
Other receivables	41	11	70
Cash and cash equivalents	1,490	7,885	20
Trade payables and accruals	(321)	(2,220)	(1,749)
Bank borrowings	—	(2,938)	—
Overall net exposure	5,830	9,897	(1,659)

32. FINANCIAL RISK MANAGEMENT *(continued)*

32.2 Currency risk *(continued)*

Summary of exposure (continued)

Group

		2009	
	Euro	US$	RMB
	HK$'000	*HK$'000*	*HK$'000*
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)
Overall net exposure	17,988	9,351	(1,617)

Company

	2010
	US$
	HK$'000
Cash and cash equivalents and overall net exposure	**119**

Company

	2009
	US$
	HK$'000
Cash and cash equivalents and overall net exposure	302

32. FINANCIAL RISK MANAGEMENT *(continued)*

32.3 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 bank balances, and bank borrowings which bear floating interest rates. At 31 December 2010, if interest rates had increased or decreased by 0.5% (2009: 0.5%) and all other variables were held constant, the Group's profit for the year would be increased or decreased by approximately HK$59,000 (2009: HK$97,000).

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 2009 has been prepared on the same basis.

32.4 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.

32. FINANCIAL RISK MANAGEMENT *(continued)*

32.4 Credit risk *(continued)*

(i) *Summary of exposure* (continued)

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	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade and other receivables	**15,228**	17,555	**—**	—
Held-to-maturity financial assets	**36**	20	**—**	—
Amounts due from subsidiaries	**—**	—	**22,547**	26,698
Cash and cash equivalents	**15,323**	23,810	**580**	447
	30,587	41,385	**23,127**	27,145

(ii) *Risk management objectives and policies*

The carrying amount of trade and other receivables, held-to-maturity financial assets, 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.

Credit risk is concentrated as 27% (2009: 41%) of total trade receivables are due from the Group's largest one (2009: two) customer(s). However, the management of the Group closely monitors the progress of collecting the payments from the customers and review the overdue balances regularly. In this regards, the directors consider that the Group's credit risk is significantly reduced.

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.

32. FINANCIAL RISK MANAGEMENT *(continued)*

32.5 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 2010 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.

Specially, for term loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect.

Group

	2010			
	Within 1 year or on demand	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current liabilities				
Trade payables	7,774	—	—	—
Accruals	4,014	—	—	—
Bank borrowings	10,051	—	—	—
	21,839	—	—	—

32. FINANCIAL RISK MANAGEMENT *(continued)*

32.5 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	—	—	—

Company

	2010			
	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	**253**	**—**	**—**	**—**
Financial guarantees issued				
Maximum amount guaranteed	**10,051**	**—**	**—**	**—**

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	—	—	—

32. FINANCIAL RISK MANAGEMENT *(continued)*

32.5 Liquidity risk *(continued)*

The table that follows summaries the maturity analysis of term loans with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. Taking into account the Group's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

Group

	Maturity analysis – term loan subject to repayment on demand clause based on scheduled repayments			
	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Total undiscounted cash outflows
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2010	1,328	1,297	3,207	5,832
31 December 2009	—	—	—	—

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.

32.6 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 and bank borrowings are not materially different from their carrying amounts because of the short maturity period on their inception.

33. 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. The capital structure of the Group consists of debt, which includes the bank borrowings disclosed in note 25, and equity attributable to equity owners of the Company, comprising issued share capital disclosed in note 27, reserves and retained earnings as disclosed in consolidated statement of changes in equity. The Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt. The Group's overall strategy remains unchanged throughout the year.

FINANCIAL SUMMARY

31 December

	2010	2009	2008	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
RESULTS					
Revenue	**93,729**	104,963	96,094	59,326	43,165
Cost of sales	**43,086**	52,521	51,625	29,678	20,092
Gross profit	**50,643**	52,442	44,469	29,648	23,073
Gross profit margin	**54%**	50%	46%	50%	53%
Profit for the year	**4,434**	12,219	9,704	4,306	2,564
Net profit margin	**5%**	12%	10%	7%	6%
ASSETS AND LIABILITIES					
Total assets	**81,741**	76,758	58,154	45,623	37,388
Total liabilities	**24,301**	20,853	12,342	8,351	4,472
Total equity	**57,440**	55,905	45,812	37,272	32,916