Advanced Card Systems Holdings Limited

龍傑智能卡控股有限公司*

(incorporated in the Cayman Islands with limited liability)

Stock code: 8210

Annual Report 2011

* *For identification only*

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

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.



CONTENTS

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

AUDITOR

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

REGISTERED OFFICE

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

HEAD OFFICE & PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL BANKERS

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

COMPANY'S WEBSITE ADDRESS

www.acs.com.hk

STOCK CODE

8210

CHAIRMAN'S STATEMENT

On behalf of Advanced Card Systems Holdings Limited and its subsidiaries (the "Group" or "ACS"), I am pleased to present the Group's annual results for the year ended 31 December 2011.

ACS was founded in 1995 in Hong Kong. In its first ten years of business, it focused on developing card operating systems and PC-linked smart card readers. In 2003, ACS was ranked by Frost & Sullivan as the world's 4th supplier of PC-linked smart card readers. In the same year, ACS went IPO in the GEM of the Stock Exchange. Seven years later in 2010, ACS was ranked as the world's 3rd and Asia Pacific's 1st supplier of PC-linked smart card readers. It exports the products and services to over 100 countries in the world and has made its brand known in the industry.

Using the funds generated by the business of card operating systems and PC-linked readers, ACS began in 2005 to develop more sophisticated smart card terminals. Later, it also got itself engaged in the business of offering end-to-end automatic fare collection (AFC) solutions for public transportation. It promotes this AFC business in the name of TaptoPay Limited which is a wholly-owned subsidiary of ACS.

The business lines of offering more sophisticated smart card terminals and AFC solutions are growing rapidly. In particular, ACS has an enviable range of technologies in smart cards, smart card readers and terminals, cryptography know-how and software used in PC and servers to enable it to be a respectable supplier of AFC solutions. To sell its AFC solutions, ACS focuses on the largely untapped markets of developing countries.

The sales revenue of ACS amounted to HK$117.5 million in the year ended 31 December 2011 representing 25% growth over 2010. The highest growth rate was recorded in the fourth quarter of the year as ACS began to supply in commercial scale two new terminals of higher sophistication and higher price to the market. The growth momentum will be carried to 2012.

The gross profit increased by 19% to HK$60.4 million while the gross profit margin reduced from 54% to 51%. The drop in gross profit margin resulted from a change of the product mix in the sales revenue. With innovative products and solutions constantly launched, ACS aims to keep the gross profit margin above 50%.

With its present lines of business, ACS reckons that the economies of scale have yet to be reached. Thus in 2011, it increased its headcount to 248 at year end from 216 and 171 from 2010 and 2009 respectively. ACS attempts to combine the strengths of the staff members in Hong Kong, the mainland of China and the Philippines in order to control the costs while carrying out the needed tasks in research and development, sales and marketing and operations.

CHAIRMAN'S STATEMENT

The increase in work force accounted mainly for the increased expenses by 20% to HK$53.4 million from HK$44.6 million. The profit before income tax increased by 16% to HK$7.2 million in 2011. The profit after income tax increased by 15% to HK$5.1 million.

Manpower enrollment and development has been the top priorities of ACS. ACS boasts of having a rich team of engineering talents in its present small scale of business. They acquired their experience either outside of ACS or inside the Group but mostly inside the Group since some of them have been with ACS for over a decade. At the same time, we enroll fresh engineering graduates every year and have them trained by the experienced staff.

We are proud to have a very dedicated sales and marketing work force who deal with our customers and other business partners on a day-to-day basis. They constantly build a brand name for ACS by offering fine services and by delivering commitments.

ACS is facing challenges in manufacturing, in enterprise resources planning (ERP) and in logistics as it is expanding its portfolio of products and services. In 2011, we were overcoming these challenges in order to increase our productivity. We made some achievements in 2011 and aim to achieve more in 2012.

Over the years, ACS has built a good range of technologies in its core business lines. It has built a brand name and assembled fine teams of people. ACS initially excelled in the PC-linked reader market which is a small market. With an enviable range of technologies, ACS successfully entered into market segments of much bigger market sizes. ACS is determined to continue to grow by keeping itself at the fore-front of the technology in its core business lines and by maintaining its brand name of offering high quality products and fine service to our customers.

I would like to take this opportunity to express my appreciation to the staff of ACS for their dedication and hard work, 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, 20 March 2012



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's sales revenue in the year ended 31 December 2011 increased 25% compared to the previous year. The Group sells its products and services to over 100 countries in the world and the countries are grouped into four regions as shown in the following chart.

	2011 *HK$'000*	2010 *HK$'000*	Change
Asia Pacific	**47,896**	28,651	+67%
Europe	**43,756**	42,500	+3%
The Americas	**13,727**	14,609	-6%
Middle East and Africa	**12,109**	7,969	+52%
	117,488	93,729	+25%

For the first time in our history of selling, Asia Pacific overtook Europe as the biggest region to account for our sales. Substantial increases were seen in Hong Kong, Japan, Taiwan, Malaysia and Thailand, with the overall growth in Asia Pacific being 67% year to year.

In 2011, Europe accounted for 37% of the total sales revenue showing a drop from 45% last year. In absolute value, an increase of 3% was recorded despite its economic weakness in 2011. Significant sales drops occurred in Spain, Belgium and Bulgaria but these declines were compensated by good growths in Switzerland, Germany, the United Kingdom and Luxembourg.

Of the four regions, the Americas were the only region showing a decline of sales, by 6%. Even though ACS increased the sales in USA substantially in 2011, the increase was countered by a big decline in sales in Brazil during the year. The sales momentum in USA is high as the Group is gradually making successes to sell to this country. The business in the Americas as a whole region is expected to prosper in 2012.

The countries that accounted for the bulk of the sales in the Middle East and Africa region were South Africa, Egypt and Nigeria. This region, particularly Africa, is of utmost importance to ACS owing to its vast population and untapped markets that demand for the Group's products and services. Nigeria, with a population of 150 million and with the Group's initial successes there, will become the star for the Group in 2012 and beyond.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(continued)*

	2011	2010	Change
	HK$'000	*HK$'000*	
Revenue	117,488	93,729	+25%
Cost of sales and services provided	(57,043)	(43,086)	+32%
Gross profit	60,445	50,643	+19%
Gross profit margin	51%	54%	
Other income and gains	181	211	-14%
Selling and distribution costs	(10,526)	(10,393)	+1%
Research and development expenses	(18,798)	(13,857)	+36%
Administrative expenses	(23,290)	(19,952)	+17%
Finance costs	(798)	(441)	+81%
Total expenses	(53,412)	(44,643)	+20%
Profit before income tax	7,214	6,211	+16%
Income tax expense	(2,095)	(1,777)	+18%
Profit for the year	5,119	4,434	+15%

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(continued)*

The overall gross profit margin dropped from 54% to 51%. The drop was partially accounted for by the lower gross profit margin of the PC-linked contact smart card readers which are relatively more mature products. Contactless readers which command higher gross profit margins are gradually replacing contact readers and so will help compensate the margin drop in contact smart card readers. ACS constantly invests heavily in research and development. With innovative products and solutions constantly launched, the Group aims to keep the gross profit margin above 50%.

In 2011, the Group continued to increase its headcount to expand its engineering work force in order to develop new products and services more quickly and to strengthen its sales, marketing and operations capabilities in anticipation of the good demand of the products and services which the Group is launching. At the end of 2011, the number of staff members was 248 compared to the figures of 216 and 171 at the end of 2010 and 2009 respectively.

Primarily owing to the increase in headcount, the total expenses of the Group rose by 20% from HK$44.6 million to HK$53.4 million. This increase was out-matched by the rise in gross profit and so the profit before income tax increased by 16% to HK$7.2 million and the profit for the year increased by 15% to HK$5.1 million.



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(continued)*

	2011	2010	Change
	HK$'000	*HK$'000*	
ASSETS AND LIABILITIES			
Non-current assets			
Plant and equipment	9,719	6,918	+40%
Development costs	22,141	15,166	+46%
	31,860	22,084	+44%
Current assets			
Inventories	36,845	26,708	+38%
Trade receivables	14,241	14,509	-2%
Other receivables, prepayments and deposits paid	2,769	2,688	+3%
Held-to-maturity financial assets	36	36	+0%
Current tax assets	–	393	-100%
Cash and cash equivalents	22,267	15,323	+45%
	76,158	59,657	+28%
Current liabilities			
Trade payables, accruals and deposits received	35,158	13,609	+158%
Bank borrowings	8,285	10,051	-18%
Current tax liabilities	710	–	N/A
	44,153	23,660	+87%
Net current assets	32,005	35,997	-11%
Total assets less current liabilities	63,865	58,081	+10%
Non-current liabilities			
Deferred tax liabilities	900	641	+40%
Net assets	62,965	57,440	+10%
EQUITY			
Share capital	28,316	28,316	+0%
Reserves	34,649	29,124	+19%
Total equity	62,965	57,440	+10%

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(continued)*

The plant and equipment increased by HK$2.8 million to HK$9.7 million mainly owing to the increase of the headcount with the resulting increase in computer and office equipment. Furthermore, the tooling (mould) for fabricating the packages of the smart card readers and terminals became more expensive as the products became more sophisticated.

The development costs increased owing to more engineers enrolled and products being put into new development. With product development capitalized in excess of development amortized, this item increased by HK$7.0 million to HK$22.1 million.

Inventories increased by HK$10.1 million to HK$36.8 million as a result of the overall increase in sales revenue and at the same time at year end more raw materials and work-in-progress inventories were kept to prepare for the increased shipment volumes in the first quarter of 2012.

The trade receivables reduced by HK$0.3 million to HK$14.2 million. Trade payables, accruals and deposits received increased by HK$21.5 million to HK$35.2 million. A customer in USA and one in Japan, both being global companies, made advanced payments to the Group accounting for HK$16 million of trade payables, accruals and deposits received of HK$35.2 million, to buy smart card terminals from us. Shipments were made in 2011 and the deliveries will be extended to 2012. Other customers also paid the Group in advance as the Group is prudent in credit extension. The Group had good records in managing its trade receivables and suffered almost zero bad debts.

Cash and cash equivalents increased by HK$6.9 million to HK$22.3 million. If the bank borrowings had all been retired at year end, the Group would have seen the cash and cash equivalents to be HK$14.0 million. The Group anticipated that the business may take off in 2012 and so arranged more credit facilities from banks. All these facilities were extended to ACS with no mortgages, pledges, personal guarantees or other encumbrances.

The HK$8.3 million bank borrowings as at the end of 2011 is the outstanding amount of two term loans from two banks. The outstanding "trust receipt loans" was zero. Of this HK$8.3 million term loans, HK$3.7 million had maturity of one year at 2011 year end.

DIVIDEND

The board of directors (the "Board") does not recommend the payment of a dividend in respect of the year ended 31 December 2011 (2010: Nil). 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

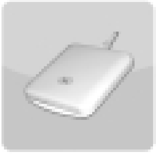
ACS was established in 1995. Today, it develops, manufactures through sub-contractors and markets smart card operating systems, smart card readers and terminals and automatic fare collection systems for public transportation. ACS sells its smart card products directly to developers of smart card solutions, users of the applications and it also sells through distributors. ACS sells its automatic fare collection systems directly to public transport operators and through partners located in the target countries. ACS supplies its AFC systems in the name of TaptoPay Limited which is a wholly-owned subsidiary of ACS.

ACS is listed on the GEM of the Stock Exchange. It has four main offices, namely, in (1) Hong Kong as its headquarters, (2) Manila, (3) Shenzhen and (4) Zhuhai with the total head count of 248. ACS is combining the strengths of these offices. While Zhuhai is a research and development center, the other offices perform a variety of functions including sales and marketing, research and development and operations functions. ACS also has a sales office in Japan and Canada.

Since the founding of ACS, the management have considered the world as its target market. Now ACS supplies its products and services to over 100 countries in the world. ACS was ranked in 2010 by Frost & Sullivan as Asia Pacific's 1st and the world's 3rd supplier of PC-linked smart card readers.

ACS received the 2009 Best Practices Award "Product Quality Leadership Award for Smart Card Readers" from Frost & Sullivan. Since 2007, to meet the requirements in the certification process of the ISO9001 standard, ACS sent questionnaires each year to customers to study about their satisfaction and received widespread positive feedbacks from them.

In 2010, 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. ACS was one of only three Hong Kong companies included in the Forbes' prestigious list that year.



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(continued)*

Business Strategy

ACS considers itself to be a technology provider. In order to survive and prosper in the market, it must constantly advance and enhance its technologies and introduce new products and services to the market. This is what ACS has been doing.

Smart cards and their reading and writing devices are applied in different market segments including national identity cards, health cards, mobile phone cards, credit cards, public transportation cards, etc. There are certain industry standards that are considered by customers, especially those in developed countries, to be important as their compliance is an indication of product quality.

ACS emphasizes on getting its key products certified against industry standards such as (1) CE/FCC standards to ensure minimal emissions of electro-magnetic waves, (2) ROHS (Restrictions On Hazardous Materials), (3) PC/SC, Personal Computer/Smart Card, standard to ensure that smart card readers can function in different Microsoft Windows platforms, (4) Europay, Mastercard and Visa (EMV) standards to ensure that smart card readers can read and write on various smart cards developed based on EMV standards, etc.

In the 16 years since its inception, ACS has been constantly expanding and enhancing its technologies. The automatic fare collection solutions offered by ACS in particular make use of the wide range technologies developed by ACS internally. Very few AFC solution providers boast of having such a wide range of intellectual properties including (1) card operating systems, (2) PC-linked smart card readers, (3) validators for buses and for gates (in an AFC system for trains), (4) cryptography and key management systems, (5) hardware security module, (6) back-end computer software, and (7) overall system design.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(continued)*

Products and services

ACS products and services are classified into the following main categories:

(1) Card Operating Systems (COS) including those with triple DES encryption, Public Key Infrastructure encryption and dual interface cards, i.e. one chip enabling the contact and contactless features of the card.

The customer base and the application scope of this category of products are very wide. Examples are health cards, identity cards, customer loyalty cards and transportation cards.

(2) PC-linked smart card readers, both contact and contactless

The customers are located in over 100 countries. Projects in which more than 500 thousand readers were used include the Belgium national identity card project, the Italy health card project, the Spanish ID card project, the Brazilian corporate ID card project and other projects.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(continued)*

Products and services *(continued)*

(3) Smart card terminals

These readers are more challenging to develop and manufacture than the PC-linked readers. ACS has overcome a lot of challenges and has come up with some high quality products for the market. Some devices are developed for specific customers (pictures not shown here) including global companies such as a USA-based provider of physical access control, a Japan-based company providing payment solution in Japan and a USA-based provider of AFC solutions.

(4) Automatic fare collection solutions

ACS also supplies end-to-end automatic fare collection solutions.

A successful automatic fare collection system using contactless smart card brings benefits to all parties involved. Here are a few:

For commuters:

* Shortened transaction time
* Discounted fares and benefits through merchant sponsored loyalty program
* No longer paying more due to lack of money change

For transport operators:

* Reduced operating costs
* Increase revenue (the convenience attracting riders)
* Wide range of fare options through one single card
* Increased service efficiency
* Better reports, e.g. on traffic analysis, ridership analysis, etc.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(continued)*

Products and services *(continued)*

(4) Automatic fare collection solutions *(continued)*

For government:

* Improved city image
* Reduce coins and notes in circulation
* Reduced carbon dioxide emission through better public transportation usage

ACS focuses on developing countries with large populations. In these countries, public transportation is very important to the residents in their daily life.

The AFC system can be applied to buses, trains, ferries and can be extended to toll roads, parking lots and even extended to cover non-transit area to enable automatic payment for convenience stores, fast food restaurants and other retail outlets.

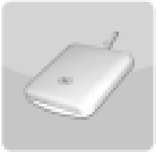
PROSPECTS

ACS now provides a wide range of smart cards and smart card reading and writing devices which can be said to be smart card hardware. It also provides solutions. While its hardware is used in many types of technology solutions, ACS focuses on one type of end-to-end solutions, i.e. AFC solutions.

This smart card industry as a whole is growing. The demand of one type of smart card or smart card reading device may drop over time, but the demand of another type may rise. For example, the demand of PC-linked contact smart card readers softened in the past two years but the demand of their contactless counterparts rose. Likewise, the lackluster European market is contrasted by the booming Asia Pacific market. ACS always attempts to advance its technologies and introduce new products to the market. It also emphasizes on wide geographical coverage and customer satisfaction in order to attain a business which is sustainable.

At the same time, the business of more complex reading and writing devices, e.g. the various terminals and the business of providing automatic fare collection systems, are growing rapidly.

The management of ACS is optimistic of the overall business growth in 2012 and further ahead. The management of ACS want to build a long-termed sustainable business. The offering of technology solutions by using smart cards creates economic value without comparable consumption of natural resources. Likewise, the provision of automatic fare collection systems contributes to the increased use of public transportation rather than the use of private cars. The expansion of ACS business is in line with its vision to grow the business while protecting the environment.



MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

At all times the Group maintains a healthy liquidity position. As at 31 December 2011, the Group's cash and cash equivalents amounted to HK$22.3 million (2010: HK$15.3 million). The Group keeps most of its cash in Hong Kong dollars ("HK$"), Euro dollars ("EURO"), United States dollars ("US$") and Renminbi ("RMB") in bank accounts. The bank borrowings of the Group amounted to HK$8.3 million (2010: HK$10.1 million). The bank borrowings are denominated in HK$, at floating rates and repayable within five years. The gearing ratio, being the total interest bearing debts over the total equity, at 31 December 2011 was 0.13 (2010: 0.17).

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 1.7 (2010: 2.5). Net asset value as at the year end date was HK$63.0 million (2010: HK$57.4 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 2011.

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 2011, the Group did not pledge any of its assets.

CONTINGENT LIABILITIES

As at 31 December 2011, the Company had outstanding corporate guarantee of HK$28 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 2011, the Group had 248 full time employees. Staff costs recognised in profit or loss amounted to HK$33.0 million (2010: HK$26.1 million). Remuneration policies and packages for the Group's employees are based on individual qualifications, performance, experience and conditions prevailing in the industry. In addition, various training sessions are offered to employees to enhance their product and market knowledge.

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

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. WONG Yiu Chu, Denny

Mr. Denny Wong, aged 64, 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 53, 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 59, 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 61, 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 61, 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 58, 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 member of the Hong Kong Institute of Certified Public Accountants.

SENIOR MANAGEMENT

Mr. CHU Chi Lok, Patrick

Mr. Patrick Chu, aged 40, 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 47, 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 48, 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 36, 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 Vice President of Sales and Marketing in January 2012. 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 37, 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 21 of this Annual Report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the rules governing dealings by directors in listed securities of the Company ("dealings rules") on terms no less exacting than the required standard of dealings as referred to in Rules 5.48 to 5.67 of the GEM Listing Rules as the codes of conduct regarding securities transactions by directors and by relevant employees as defined in the Code. Having made specific enquiry of all directors of the Company, all directors of the Company confirm that they complied with such dealings rules throughout the year ended 31 December 2011.

BOARD OF DIRECTORS

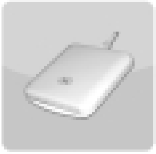
The Board comprises 3 executive directors, namely Mr. Wong Yiu Chu, Denny (being the chairman of the Board), Mr. Tan Keng Boon and Ms. Tsui Kam Ling, Alice; and 3 independent non-executive directors, Dr. Yip Chak Lam, Peter, Mr. Yu Man Woon and Mr. Wong Yick Man, Francis. Details of each director are disclosed on pages 17 to 18 of this Annual Report.

During the year ended 31 December 2011, 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.

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



BOARD OF DIRECTORS *(continued)*

The Company held four meetings during the year ended 31 December 2011. Due notice and board papers were given to all directors prior to the meeting in accordance with the GEM Listing Rules and the Code. Details of individual attendance of directors are set out below:

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

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

NON-EXECUTIVE DIRECTORS

Dr. Yip Chak Lam, Peter, Mr. Yu Man Woon and Mr. Wong Yick Man, Francis were re-appointed by the board of directors as the independent non-executive directors for a term of two years commencing from 1 June 2010 to 31 May 2012.

REMUNERATION OF DIRECTORS

The remuneration committee makes recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing the policy on such remuneration. The remuneration of directors is determined according to their expertise, knowledge and contributions to the Group with reference to the Group's profitability and the prevailing market conditions. Details of the remuneration payable to the directors during the year are set out in note 15(a) 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 2011, the fee payable to the auditors in respect of audit and non-audit services amounted to HK$342,000 and HK$20,000 respectively.



CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

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

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

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

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

Set out below is the summary of work performed by the audit committee during the year ended 31 December 2011:

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

(2) to monitor integrity of financial statements of the Company and the Company's annual report and accounts, interim report, and quarterly reports, and to review significant financial reporting 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 auditor about their reporting responsibilities is set out on pages 37 to 38 of this Annual Report. There are no material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.



CORPORATE GOVERNANCE REPORT

INTERNAL CONTROL

The Board is responsible for overseeing the system of internal control of the Group and for reviewing its effectiveness. To facilitate the effectiveness and efficiency of operations and to ensure compliance with relevant laws and regulations, the Group emphasises on the importance of a sound internal control system which is also indispensable for mitigating the Group's risk exposures. A sound and effective internal control system is designed for (i) safeguarding the interests of shareholders; (ii) safeguarding assets of the Group against misappropriation; (iii) ensuring proper maintenance of accounting records for the provision of reliable financial information; and (iv) ensuring compliance with the relevant laws 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 2011 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 2011 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 2011.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 17 to the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the year are set out in note 5 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

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

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	20%	—
Five largest customers in aggregate	39%	—
The largest supplier	—	12%
Five largest suppliers in aggregate	—	36%

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 2011 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 39 to 91.

The directors do not recommend the payment of a dividend for the year ended 31 December 2011.

RESERVES

Profit for the year of HK$5,119,000 (2010: HK$4,434,000) 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 28 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 16 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in share capital and share options of the Company during the year are set out in notes 26 and 27 to the financial statements respectively.

DIRECTORS

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

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

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

In accordance with Article 112 of the Company's Articles of Association, Mr. Tan Keng Boon and Mr. Yu Man Woon will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

The executive directors, Mr. Wong Yiu Chu, Denny, Mr. Tan Keng Boon and Ms. Tsui Kam Ling, Alice, have entered into service agreements with the Company which were renewed 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 2010 to 31 May 2012.

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



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

As at 31 December 2011, 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 2011
Mr. Wong Yiu Chu, Denny (Note 2)	80,768,000	49,498,522	—	—	130,266,522	46.00%
Ms. Tsui Kam Ling, Alice (Note 3)	49,498,522	80,768,000	—	—	130,266,522	46.00%
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 49,498,522 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 49,498,522 shares are held by Ms. Tsui Kam Ling, Alice personally and 80,768,000 shares are held by her husband, Mr. Wong Yiu Chu, Denny personally. Ms. Tsui Kam Ling, Alice is taken to be interested in the shares held by Mr. Wong Yiu Chu, Denny under the SFO.

Save as disclosed above, to the best knowledge of the directors of the Company, as at 31 December 2011, 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 20 March 2012.

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

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

(e) Payment on acceptance of the option offer

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

(f) Basis of determining the exercise price

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

SHARE OPTION SCHEMES *(continued)*

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

(g) Remaining life of the Plan

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

As at 31 December 2011, the employees of the Group had the following interests in options to subscribe for shares of the Company (market value per share at 30 December 2011 was HK$0.36) 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.

		Number of share options							
Grantees	Date granted	Balance as at 1 January 2011	Granted during the year	Exercised during the year	Lapsed during the year	Balance as at 31 December 2011	Period during which the options are exercisable	Exercise price per share	Percentage of the Company's issued share capital as at 31 December 2011
Employees	27 October 2003	900,776	–	–	–	900,776 (Note 1)	10 May 2004 to 20 January 2013	HK$0.24	0.32%
		900,776	–	–	–	900,776			

Notes:

1 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.

2 No option was granted, exercised, cancelled or lapsed 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 20 March 2012). 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.

REPORT OF THE DIRECTORS

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 as at 31 December 2011 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 2011
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 2011 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$8.3 million and the details are set out in note 24 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 92 of this 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$1,594,000 (2010: HK$1,236,000).

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 reviewed the effectiveness of the internal control systems of the Group and met once with the external auditor to review the Group's audited results for the year ended 31 December 2011.

AUDITOR

Due to a merger of the businesses of Grant Thornton ("GTHK"), now known as JBPB & Co., and BDO Limited ("BDO") to practise in the name of BDO as announced on 26 November 2010, GTHK resigned and BDO was appointed as auditor of the Company effective from 29 November 2010. Save as disclosed herein, there was no other change in auditor of the Company in any of the preceding three years.

The consolidated financial statements for the year ended 31 December 2011 have been audited by BDO. At the forthcoming annual general meeting of the Company, BDO retire and, being eligible, offer themselves for re-appointment. A resolution will be proposed to re-appoint BDO as auditor of the Company.

By order of the Board

WONG Yiu Chu, Denny
Chairman

Hong Kong, 20 March 2012

INDEPENDENT AUDITOR'S REPORT

BDO

Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

TO THE SHAREHOLDERS OF ADVANCED CARD SYSTEMS HOLDINGS LIMITED
(incorporated in 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 39 to 91, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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.

BDO Limited
香港立信德豪會計師事務所有限公司

BDO Limited, a Hong Kong limited company, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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 2011, 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, 20 March 2012



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Notes	2011 *HK$'000*	2010 *HK$'000*
Revenue	6	117,488	93,729
Cost of sales and services provided		(57,043)	(43,086)
Gross profit		60,445	50,643
Other income and gains	7	181	211
Selling and distribution costs		(10,526)	(10,393)
Research and development expenses		(18,798)	(13,857)
Administrative expenses		(23,290)	(19,952)
Finance costs	8	(798)	(441)
Profit before income tax	9	7,214	6,211
Income tax expense	10	(2,095)	(1,777)
Profit for the year, attributable to owners of the Company		5,119	4,434
Other comprehensive income			
Exchange gain on translation of financial statements of foreign operations		406	160
Other comprehensive income for the year		406	160
Total comprehensive income for the year, attributable to owners of the Company		5,525	4,594
Earnings per share for profit attributable to owners of the Company during the year	13		
- Basic (HK cents)		1.808	1.568
- Diluted (HK cents)		1.806	1.564

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Plant and equipment	16	**9,719**	6,918
Development costs	18	**22,141**	15,166
		31,860	22,084
Current assets			
Inventories	19	**36,845**	26,708
Trade and other receivables, prepayments and deposits paid	20	**17,010**	17,197
Held-to-maturity financial assets	21	**36**	36
Current tax assets		**—**	393
Cash and cash equivalents	22	**22,267**	15,323
		76,158	59,657
Current liabilities			
Trade payables, accruals and deposits received	23	**35,158**	13,609
Bank borrowings, secured	24	**8,285**	10,051
Current tax liabilities		**710**	—
		44,153	23,660
Net current assets		**32,005**	35,997
Total assets less current liabilities		**63,865**	58,081
Non-current liabilities			
Deferred tax liabilities	25	**900**	641
Net assets		**62,965**	57,440
EQUITY ATTRIBUTABLE TO COMPANY'S OWNERS			
Share capital	26	**28,316**	28,316
Reserves	28	**34,649**	29,124
Total equity		**62,965**	57,440

On behalf of the Board

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

STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	**2011**	2010
		HK$'000	*HK$'000*
ASSETS AND LIABILITIES			
Non-current assets			
Investments in subsidiaries	17	**14,004**	14,004
Current assets			
Amounts due from subsidiaries	17	**21,931**	22,547
Prepayments	20	**65**	165
Cash and cash equivalents	22	**326**	580
		22,322	23,292
Current liabilities			
Accruals	23	**276**	253
Net current assets		**22,046**	23,039
Net assets/ Total assets less current liabilities		**36,050**	37,043
EQUITY			
Share capital	26	**28,316**	28,316
Reserves	28	**7,734**	8,727
Total equity		**36,050**	37,043

On behalf of the Board

WONG Yiu Chu, Denny
Chairman

TSUI Kam Ling, Alice
Director

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	Notes	**2011**	2010
		HK$'000	*HK$'000*
Cash flows from operating activities			
Profit before income tax		**7,214**	6,211
Adjustments for:			
Amortisation of development costs	9	**2,271**	2,103
Depreciation of plant and equipment	9	**3,469**	2,770
Finance costs	8	**798**	441
Interest income	7	**(15)**	(15)
Net loss on disposals of plant and equipment	9	**8**	3
Write-down/ (Reversal of write-down) of inventories	9	**425**	(30)
Operating profit before working capital changes		**14,170**	11,483
Increase in inventories		**(10,499)**	(8,796)
Decrease in trade and other receivables, prepayments and deposits paid		**483**	2,284
Increase/ (Decrease) in trade payables, accruals and deposits received		**21,388**	(5,853)
Cash generated from/ (used in) operations		**25,542**	(882)
Income tax paid		**(733)**	(2,920)
Net cash generated from/ (used in) operating activities		**24,809**	(3,802)
Cash flows from investing activities			
Purchases of plant and equipment		**(6,149)**	(4,071)
Proceeds from disposals of plant and equipment		**5**	—
Purchases of held-to-maturity financial assets		**—**	(16)
Expenditure on development projects capitalised	18	**(9,246)**	(7,324)
Interest received		**15**	15
Net cash used in investing activities		**(15,375)**	(11,396)



CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	Notes	**2011**	2010
		HK$'000	*HK$'000*
Cash flows from financing activities			
Proceeds from shares issued upon conversion of share options		**—**	50
(Decrease)/ Increase in trust receipt loans		**(4,551)**	4,551
Proceeds from new borrowings		**5,000**	6,000
Repayments of borrowings		**(2,215)**	(500)
Dividend paid		**—**	(3,109)
Finance costs paid		**(798)**	(441)
Net cash (used in)/ generated from financing activities		**(2,564)**	6,551
Net increase/ (decrease) in cash and cash equivalents		**6,870**	(8,647)
Cash and cash equivalents at 1 January		**15,323**	23,810
Effect of foreign exchange rate changes, on cash held		**74**	160
Cash and cash equivalents at 31 December	22	**22,267**	15,323



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Attributable to owners of the Company						
	Share capital *HK$'000* (note 26)	Share premium* *HK$'000* (note 28)	Merger reserve* *HK$'000* (note 28)	Translation reserve* *HK$'000*	Retained profits* *HK$'000*	Proposed dividend* *HK$'000*	Total *HK$'000*
Balance as at 1 January 2010	28,260	17,835	4,496	69	2,136	3,109	55,905
2009 dividends approved (note 12)	—	—	—	—	—	(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 as at 31 December 2010 and 1 January 2011	28,316	17,829	4,496	229	6,570	—	57,440
Profit for the year	—	—	—	—	5,119	—	5,119
Other comprehensive income – exchange gain on translation of financial statements of foreign operations	—	—	—	406	—	—	406
Total comprehensive income for the year	—	—	—	406	5,119	—	5,525
Balance as at 31 December 2011	**28,316**	**17,829**	**4,496**	**635**	**11,689**	**—**	**62,965**

* These reserve accounts comprise the consolidated reserves of HK$34,649,000 (2010: HK$29,124,000) in the consolidated statement of financial position as at 31 December 2011.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

1. GENERAL INFORMATION

Advanced Card Systems Holdings Limited (the "Company") was incorporated in Cayman Islands on 13 April 2000 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. Its registered office is located at Ugland House, P.O. Box 309, George Town, Grand Cayman, Cayman Islands, British West Indies and its principal place of business is located at Units 2010-2013, 20th Floor, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Hong Kong. The 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 is investment holding. Details of the principal activities and other particulars of the subsidiaries are set out in note 17 to the financial statements. The Company and its subsidiaries are referred to as the "Group" hereinafter. The Group's operations are based in the People's Republic of China (the "PRC"), including Hong Kong. There were no significant changes in the nature of the Group's principal activities during the year.

The financial statements have been prepared in Hong Kong dollars ("HK$"), being the functional and presentation currency of the Company. All financial information presented in HK$ has been rounded to the nearest thousands, unless otherwise stated.

The financial statements for the year ended 31 December 2011 were approved for issue by the board of directors on 20 March 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements on pages 39 to 91 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 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

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 Basis of consolidation

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

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

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

2.3 Subsidiaries

Subsidiaries are entities 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 any impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

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

2.4 Foreign currency translations

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 the 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 profit or loss. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into HK$. Assets and liabilities have been translated into HK$ at the closing rate at the 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.

When a foreign operation is sold such that control is lost, the cumulative exchange differences related to that foreign operation are reclassified from equity to profit or loss as part of the gain or loss on sale.

2.5 Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use.

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 profit or loss in the year in which they are incurred.

Depreciation is provided to write off the cost less their estimated residual value, using 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%
Mould	25%

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

2.5 Plant and equipment *(continued)*

The assets' estimated residual value, depreciation method and estimated useful lives are reviewed, and adjusted if applicable, at each reporting date.

Gains or losses arising on retirement or disposal are determined as the difference between the net sale proceeds and the carrying amount of the asset and are recognised in profit or loss.

2.6 Research and development costs

Expenditures associated with research activities are expensed in profit or loss as they occur. Expenditures 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 mainly employee costs incurred on development activities along with an appropriate portion of relevant overheads. The costs of development activities that meet the above recognition criteria are recognised as intangible assets and are recognised initially at cost. After initial recognition, they are carried at cost less accumulated amortisation and any impairment losses. Amortisation is provided on straight-line method over their estimated useful lives of four years. Amortisation commence when the intangible assets are available for use. The asset's amortisation method and estimated useful lives are reviewed, and adjusted if applicable, at each reporting date.

Development expenditure not satisfying the above criteria are expensed as incurred.

2.7 Financial assets

The Group's financial assets are categorised as "held-to-maturity investments" and "loans and receivables". Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity whereas loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

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

2.7 Financial assets *(continued)*

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. When held-to-maturity investments and loans and receivables are recognised initially, they are measured at fair value, plus directly attributable transaction costs. Subsequent to initial recognition, these are measured at amortised cost using the effective interest method, less any impairment loss. Amortised cost is calculated taking into account any discount or premium on acquisition and includes transaction costs that are an integral part of the effective interest rate.

Derecognition of financial assets occurs when the contractual rights to receive cash flows from the financial assets expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

At each reporting date, held-to-maturity investments and loans and receivables 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 default or delinquency in interest or principal payments;

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

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

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

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

2.7 Financial assets *(continued)*

If, in subsequent period, the amount of 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 profit or loss of year in which the reversal occurs.

Impairment losses for doubtful receivables, whose recovery is considered doubtful but not remote, are recorded using an allowance account. When the Group considered that recovery of receivables is remote, the amount considered irrecoverable is written off against the receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

2.8 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using weighted average method, and in the case of work-in-progress and finished goods, comprises raw materials, subcontracting charges and an appropriate proportion of overheads incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

When the inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories is recognised as an expense in the year the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

2.9 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and other financial institutions and short-term, highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

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

2.10 Financial liabilities

The Group's financial liabilities 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 2.19).

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 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.

Bank borrowings
Bank borrowings are recognised initially at fair value, net of transaction costs incurred. These are subsequently stated at amortised costs, 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 effective interest method.

Bank borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

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

2.11 Financial guarantee contracts

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 payables and accruals. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

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

2.11 Financial guarantee contracts *(continued)*

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 in accordance with note 2.13 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.

2.12 Leases

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

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

2.13 Provisions and contingent liabilities

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.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

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

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 transaction.

2.15 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sales of goods, rending of services and the use by others of the Group's assets yielding interest, net of rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

(a) Sale of goods (including smart card products, software and hardware) 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;

(b) 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 service to be provided; and

(c) Interest income is recognised on time-proportion basis using effective interest method.

2.16 Impairment of non-financial assets

The Group's plant and equipment, intangible assets and the Company's investments in subsidiaries are subject to impairment testing. Intangible assets not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

Recoverable amount of an asset is the higher of fair value, reflecting market conditions less costs to sell and value-in-use. In assessing value-in-use, the estimate 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. 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 ("CGU")). As a result, some assets are tested individually for impairment and some are tested at CGU level.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

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

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

An impairment loss is recognised as an expense immediately for the amount by which the carrying amount of an asset, or the CGU to which it belongs, exceeds its recoverable amount. Impairment losses recognised for CGUs is charged pro-rata to the assets in the CGU, 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 recoverable amount of the asset or the CGU and only to the extent that the carrying amount of the asset or the CGU does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

2.17 Employee benefits

Retirement benefits

Retirement benefits to employees are provided through defined contribution plans.

The Group operates a defined contribution retirement benefit plan under the Mandatory Provident Fund Schemes Ordinance ("MPF Scheme"), for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries or the maximum mandatory contribution as required by the MPF Scheme.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of its payroll costs to the central pension scheme.

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 Group and the employees 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 obligation under these plans is limited to the contributions payable.

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

2.17 Employee benefits *(continued)*

Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

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

2.18 Share-based compensation

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

Share options granted after 7 November 2002 and had vested before 1 January 2005

These share options are not recognised in the financial statements until such time as the options are exercised, and no charge is recognised in profit or loss in respect of the fair value of options granted.

Upon the exercise of the share options, the resulting shares issued are recorded as additional share capital at the nominal value of shares, and the excess or deficit of the exercise price per share over the nominal value of shares is recorded as part of the share premium. Options which lapse or are cancelled prior to their exercise date will not be recognised in the financial statements.

Share options granted after 7 November 2002 and had not vested on 1 January 2005

All employee services received in exchange for the grant of these share-based compensations 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.

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

2.18 Share-based compensation *(continued)*

Share options granted after 7 November 2002 and had not vested on 1 January 2005 *(continued)*

At the time when the share options are exercised, the amount previously recognised in share option reserve will be 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 will be transferred to retained profits.

2.19 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.

2.20 Accounting for income tax

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 taxable profit for the year.

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 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 investments 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.

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

2.20 Accounting for income tax *(continued)*

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.

Current tax and changes in deferred tax assets or liabilities are recognised as a component of income tax expense 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, respectively.

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 tax 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.

2.21 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information report to the executive directors for their decisions about resources to be allocated to the Group's business components and for their review of the performance of those components.

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs except that corporate expenses which are not directly attributable to the business activities of the operating segment are not allocated in arriving at the operating results of each segment. This is the measurement reported to the executive directors for the purpose of resource allocation and assessment of segment performance.

All assets are allocated to reportable segments other than current tax assets and corporate assets which are not directly attributable to the business activities of the operating segment, which primarily applies to the Group's headquarters.

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

2.21 Segment reporting *(continued)*

All liabilities are allocated to reportable segments other than current and deferred tax liabilities and other corporate liabilities which are not directly attributable to the business activities of the operating segment.

2.22 Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

(a) has control or joint control over the Group;

(b) has significant influence over the Group; or

(c) is a member of the key management personnel of the Group or of the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

(a) the entity and the Group are members of the same group;

(b) one entity is an associate or joint ventures of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(c) both entities are joint venture of the same third party;

(d) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(e) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(f) the entity is controlled or jointly controlled by a person identified in (i);

(g) a person identified in (i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close family members of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include (i) that person's children and spouse or domestic partner; (ii) children of that person's spouse or domestic partner; and (iii) dependents of that person or that person's spouse or domestic partner.

3. ADOPTION OF NEW OR AMENDED HKFRSs

3.1 Adoption of new or amended HKFRSs

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations (the "new HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2011:

- HKAS 24 (Revised) – Related Party Disclosures; and
- HKFRS (Amendments) – Improvements to HKFRSs 2010

Other than as noted below, the adoption of the new HKFRSs had no material impact on the Group's financial statements.

HKAS 24 (Revised) – Related Party Disclosures

The amendment clarified the definition of related party to remove inconsistencies. As a result, the Group has reassessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous period. The amendment also introduced modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.

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

At the date of authorisation of these financial statements, the following new or amended HKFRSs, that are potentially relevant to the Group's financial statements, have been issued but are not yet effective, and have not been adopted early by the Group for the year ended 31 December 2011.

The directors of the Company anticipate that all of the pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new or amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Certain other new or amended HKFRSs have been issued but are not expected to have a material impact on the Group's financial statements.

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

3.2 New or amended HKFRSs that have been issued but are not yet effective *(continued)*

Amendments to HKAS 1 (Revised) – Presentation of Items of Other Comprehensive Income (Effective for annual periods beginning on or after 1 July 2012)

The amendments require entities to group together the items of other comprehensive income that may be reclassified to profit or loss in the future (e.g. exchange difference on translation of financial statements of foreign operations) by presenting them separately from those that would never be reclassified to profit or loss. Tax on items of other comprehensive income is allocated and disclosed on the same basis. The amendments also change the title "Statement of comprehensive income" to "Statement of profit or loss and other comprehensive income". However, entities are still allowed to use the old title. The amendments will be applied retrospectively.

HKFRS 9 - Financial Instruments (Effective for annual periods beginning on or after 1 January 2015)

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.

HKFRS 10 - Consolidated Financial Statements (Effective for annual periods beginning on or after 1 January 2013)

HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns.

HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduce the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them.

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

3.2 New or amended HKFRSs that have been issued but are not yet effective *(continued)*

HKFRS 10 - Consolidated Financial Statements (Effective for annual periods beginning on or after 1 January 2013) (continued)

The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agent of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The implementation of HKFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing HKAS 27 on other consolidation related matters are carried forward unchanged. HKFRS 10 will be applied retrospectively subject to certain transitional provisions.

HKFRS 12 - Disclosure of Interests in Other Entities (Effective for annual periods beginning on or after 1 January 2013)

HKFRS 12 integrates and makes consistent the disclosures requirements about interests in subsidiaries, associates and joint arrangements. It also introduces new disclosure requirements, including those related to unconsolidated structured entities. The general objective of the standard is to enable users of financial statements to evaluate the nature and risks of a reporting entity's interests in other entities and the effects of those interests on the reporting entity'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 may 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.



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

In addition to information disclosed elsewhere in these financial statements, critical judgements in applying accounting policies and key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within next financial year are as follows:

(i) 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.

(ii) 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.

(iii) 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.

(iv) Depreciation of plant and equipment and amortisation of development costs

The Group depreciates its plant and equipment and amortises development costs in accordance with the accounting policies stated in notes 2.5 and 2.6. The estimated useful lives reflect the directors' estimates of the period that the Group will derive future economic benefits from the use of these assets. Management reassesses the estimated useful lives at the reporting date.

(v) Estimated impairment of development costs

Determining whether the development costs are impaired and the amount of impairment losses require an estimation of the value-in-use of the individual assets or CGUs to which the assets has been allocated. The value-in-use calculation requires management to estimate the future cash flows expected to arise from the assets or CGUs to which the assets has been allocated and a suitable discount rate in order to calculate the present value. Management reassesses the estimated impairment of development costs at the reporting date.

5. SEGMENT INFORMATION

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

	2011 HK$'000	2010 HK$'000
Revenue from external customers and reportable segment revenue	117,488	93,729
Reportable segment profit	8,207	7,203
Unallocated corporate expenses	(993)	(992)
Consolidated profit before income tax	7,214	6,211
Reportable segment assets	107,953	81,183
Current tax assets	—	393
Unallocated corporate assets	65	165
Consolidated assets	108,018	81,741
Reportable segment liabilities	43,167	23,407
Current tax liabilities	710	—
Deferred tax liabilities	900	641
Unallocated corporate liabilities	276	253
Consolidated liabilities	45,053	24,301
Other segment information		
Interest income	(15)	(15)
Interest expense	349	112
Depreciation and amortisation of non-financial assets	5,740	4,873
Research and development expenses	18,798	13,857
Write-down/ (Reversal of write-down) of inventories	425	(30)
Additions to non-current assets	15,395	11,395

5. SEGMENT INFORMATION *(continued)*

Geographical location of customers is based on the location at which the customers are resided. Geographical location of non-current assets is based on the physical location of the asset, in the case of plant and equipment, and the location of the operation to which they are allocated, in the case of development costs. The Group's revenue from external customers and non-current assets is divided into the following geographical areas:

	Revenue from external customers		Non-current assets	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
PRC, including Hong Kong and Macau (domicile)#	**17,894**	11,506	**31,430**	21,467
Foreign countries				
– Italy	**23,181**	17,961	**—**	—
– Other countries	**76,413**	64,262	**430**	617
	99,594	82,223	**430**	617
	117,488	93,729	**31,860**	22,084

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 operations in the PRC, and therefore, PRC is considered as the Group's country of domicile for the purpose of disclosures as required by HKFRS 8 "Operating Segments".

The Group's customer base is diversified and includes only the following customers with whom transactions have exceeded 10% of the Group's revenues. During each of the years ended 31 December 2011 and 2010, revenue derived from these customers, including sales to entities which are known to the Group to be under common control, are as follows:

	2011	2010
	HK$'000	*HK$'000*
Customer A*	**23,118**	17,836
Customer B*	**1,822**	3,462

* Customers A & B are known to the Group to be under common control

6. REVENUE

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

	2011	2010
	HK$'000	*HK$'000*
Sale of smart card products, software and hardware	115,853	91,575
Smart card related services	1,635	2,154
	117,488	93,729

7. OTHER INCOME AND GAINS

	2011	2010
	HK$'000	*HK$'000*
Interest income on:		
– Held-to-maturity financial assets	1	1
– Bank deposits	14	14
Interest income on financial assets not at fair value through profit or loss	15	15
Forfeiture of deposits	—	7
Research and development service fee income	—	143
Sundry income	166	46
	181	211

Included above is income from listed investment of HK$1,000 (2010: HK$1,000).

8. FINANCE COSTS

	2011	2010
	HK$'000	*HK$'000*
Interest charges on bank borrowings, repayable on demand or wholly within five years	349	112
Bank charges	449	329
	798	441

9. PROFIT BEFORE INCOME TAX

The Group's profit before income tax is arrived at after charging/ (crediting):

	2011	2010
	HK$'000	*HK$'000*
Amortisation of development costs*	**2,271**	2,103
Cost of inventories recognised as expense, including:	**55,501**	42,057
– Write-down/ (Reversal of write-down) of inventories^	**425**	(30)
Depreciation of plant and equipment	**3,469**	2,770
Net foreign exchange loss	**660**	1,468
Net loss on disposals of plant and equipment	**8**	3
Auditors' remuneration		
– Audit services	**342**	338
– Other services	**20**	—
	362	338
Minimum lease payments under operating leases for land and buildings	**3,049**	2,891
Less: Amount capitalised into development costs	**(124)**	(133)
Amount recognised in profit or loss	**2,925**	2,758

* Included in research and development expenses in profit or loss

^ Reversal of the write-down of inventories is due to the obsolete stock has been used or disposed

10. INCOME TAX EXPENSE

	2011	2010
	HK$'000	*HK$'000*
Current tax		
Hong Kong profits tax		
– Provision for current year	1,801	1,570
Philippines Income Tax		
– Provision for current year	138	129
– (Over)/ Under-provision in respect of prior years	(103)	1
	35	130
	1,836	1,700
Deferred tax (note 25)	259	77
	2,095	1,777

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits for the year.

Philippines Income Tax has been provided at 30% on the estimated taxable income or 2% on gross income incurred for the year, whichever is higher, in accordance with the National Internal Revenue Code of the Republic of the Philippines.

No provision for income tax in other locations including PRC and Canada has been made as no assessable profits arose from the operations in these locations or the related subsidiaries had unused tax losses brought forward to offset against the current year's assessable profits (2010: Nil).

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

	2011	2010
	HK$'000	*HK$'000*
Profit before income tax	7,214	6,211
Notional tax at the applicable tax rates	1,176	1,192
Tax effect of non-deductible expenses	620	366
Tax effect of non-taxable revenue	(68)	(228)
Tax effect of unused tax loss not recognised	488	487
Tax effect of prior years' tax losses utilised this year	(101)	(41)
Tax effect of temporary difference not recognised	99	—
(Over)/ Under-provision in respect of prior years	(103)	1
Other differences	(16)	—
Income tax expense	2,095	1,777

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Of the consolidated profit attributable to the owners of the Company of HK$5,119,000 (2010: HK$4,434,000), a loss of HK$993,000 (2010: HK$992,000) has been dealt with in the financial statements of the Company.

12. DIVIDENDS

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

	2011	2010
	HK$'000	*HK$'000*
Dividend in respect of year ended 31 December 2009 of HK1.1 cents per ordinary share	—	3,109

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on profit attributable to owners of the Company of HK$5,119,000 (2010: HK$4,434,000) and weighted average of 283,161,000 (2010: 282,866,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on profit attributable to owners of the Company of HK$5,119,000 (2010: HK$4,434,000) and the weighted average of 283,427,000 (2010: 283,509,000) 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 of 283,161,000 (2010: 282,866,000) ordinary shares in issue during the year as used in the calculation of basic earnings per share plus the weighted average of 266,000 (2010: 643,000) ordinary shares deemed to be issued at no consideration as if all the Company's outstanding share options had been exercised.

14. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	2011	2010
	HK$'000	*HK$'000*
Wages and salaries	**39,111**	30,509
Pension costs – defined contribution plans	**1,594**	1,236
Total staff costs	**40,705**	31,745
Less: Amount capitalised into development costs	**(7,704)**	(5,682)
Amount recognised in profit or loss	**33,001**	26,063

15. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

No emoluments were paid by the Group to any of the following directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office or are there any arrangement under which a director waived or agree to waive any remuneration during the year (2010: Nil).

(a) Directors' emoluments

	Directors' fee	Salaries, allowances and other benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2011					
Executive directors					
– Mr. Wong Yiu Chu, Denny	—	1,591	50	12	1,653
– Mr. Tan Keng Boon	—	905	60	12	977
– Ms. Tsui Kam Ling, Alice	—	820	60	12	892
Independent non-executive directors					
– Dr. Yip Chak Kam, Peter	120	—	—	—	120
– Mr. Yu Man Woon	120	—	—	—	120
– Mr. Wong Yick Man, Francis	120	—	—	—	120
	360	3,316	170	36	3,882

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

(a) Directors' emoluments *(continued)*

	Directors' fee *HK$'000*	Salaries, allowances and other benefits in kind *HK$'000*	Discretionary bonuses *HK$'000*	Retirement scheme contributions *HK$'000*	Total *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 Kam, Peter	120	—	—	—	120
– Mr. Yu Man Woon	120	—	—	—	120
– Mr. Wong Yick Man, Francis	120	—	—	—	120
	360	3,130	120	36	3,646

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included three (2010: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2010: two) individuals, which are within HK$1,000,000 during the year are as follows:

	2011 *HK$'000*	2010 *HK$'000*
Salaries and other emoluments	**1,202**	1,099
Discretionary bonuses	**106**	104
Retirement scheme contributions	**24**	24
	1,332	1,227

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

16. PLANT AND EQUIPMENT - GROUP

	Leasehold improvements *HK$'000*	Furniture and fixtures *HK$'000*	Computer and office equipment *HK$'000*	Mould *HK$'000*	Total *HK$'000*
At 1 January 2010					
Cost	1,272	866	6,348	4,743	13,229
Accumulated depreciation	(1,022)	(526)	(3,961)	(2,100)	(7,609)
Net carrying amount	250	340	2,387	2,643	5,620
Year ended 31 December 2010					
Opening net carrying 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 carrying 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 carrying amount	383	374	3,725	2,436	6,918
Year ended 31 December 2011					
Opening net carrying amount	383	374	3,725	2,436	6,918
Additions	101	107	3,394	2,547	6,149
Disposals	—	—	(13)	—	(13)
Depreciation	(185)	(197)	(1,788)	(1,299)	(3,469)
Exchange difference	28	15	91	—	134
Closing net carrying amount	327	299	5,409	3,684	9,719
At 31 December 2011					
Cost	1,883	1,194	12,301	8,022	23,400
Accumulated depreciation	(1,556)	(895)	(6,892)	(4,338)	(13,681)
Net carrying amount	327	299	5,409	3,684	9,719

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

17. INTERESTS IN SUBSIDIARIES - COMPANY

	2011 *HK$'000*	2010 *HK$'000*
Unlisted investments, at cost	**14,004**	14,004
Amounts due from subsidiaries	**21,931**	22,547

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

Particulars of the principal subsidiaries as at 31 December 2011 are as follows:

Name	Place of incorporation/ establishment and kind of legal entity	Particulars of issued shares/ registered capital	Percentage of issued shares/ registered capital attributable to the Company		Principal activities and place of operations
			Directly	Indirectly	
Advanced Card Systems Limited	Hong Kong, limited liability company	18,000,000 ordinary shares of HK$1 each	100	—	Development, sales 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 shares of CAD1	—	100	Sales and distribution of smart card products, software and hardware and the provision of smart card related services in Canada
ACS Technologies Limited	Hong Kong, limited liability company	1 ordinary share of HK$1	100	—	Development, sales and distribution of smart card products, software and hardware and the provision of smart card related services in Philippines
ACS Technologies (Shenzhen) Limited*	PRC, wholly foreign owned enterprise	HK$9,000,000	—	100	Development, sales and distribution of smart card products, software and hardware and the provision of smart card related services in the PRC

17. INTERESTS IN SUBSIDIARIES - COMPANY *(continued)*

Particulars of the principal subsidiaries as at 31 December 2011 are as follows: *(continued)*

Name	Place of incorporation/ establishment and kind of legal entity	Particulars of issued shares/ registered capital	Percentage of issued shares/ registered capital attributable to the Company Directly	Indirectly	Principal activities and place of operations
Logyi Limited*	PRC, wholly foreign owned enterprise	HK$3,500,000	—	100	Development of smart card products, software and hardware and the provision of smart card related services in the PRC
Teczo.com, Limited	Hong Kong, limited liability company	1 ordinary share of HK$1	—	100	Development and supply of on-line enterprise management solutions in Hong Kong and Philippines
TaptoPay International Limited	Hong Kong, limited liability company	1 ordinary share of HK$1	100	—	Investment holding
TaptoPay Limited	Hong Kong, limited liability company	1 ordinary share of HK$1	—	100	Development and provision of products and solutions for automatic revenue collection in Hong Kong

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net asset of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

* subsidiaries not audited by BDO Limited

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

18. DEVELOPMENT COSTS - GROUP

	2011	2010
	HK$'000	*HK$'000*
At 1 January		
Gross carrying amount	**36,483**	29,159
Accumulated amortisation and impairment losses	**(21,317)**	(19,214)
Net carrying amount	**15,166**	9,945
Year ended 31 December		
Carrying amount at 1 January	**15,166**	9,945
Capitalised during the year	**9,246**	7,324
Amortisation charge	**(2,271)**	(2,103)
Carrying amount at 31 December	**22,141**	15,166
At 31 December		
Gross carrying amount	**45,729**	36,483
Accumulated amortisation and impairment losses	**(23,588)**	(21,317)
Net carrying amount	**22,141**	15,166

19. INVENTORIES - GROUP

	2011	2010
	HK$'000	*HK$'000*
Raw materials	**25,319**	21,386
Work-in-progress	**3,408**	270
Finished goods	**8,118**	5,052
	36,845	26,708

20. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS PAID

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade receivables	**14,241**	14,509	**—**	—
Deposits paid	**1,188**	1,013	**—**	—
Prepayments	**804**	956	**65**	165
Other receivables	**777**	719	**—**	—
	17,010	17,197	**65**	165

Customers are generally granted credit terms of 14 to 100 (2010: 30 to 60) days. Based on invoice date, ageing analysis of the Group's trade receivables is as follows:

	2011	2010
	HK$'000	*HK$'000*
0 – 30 days	**9,944**	8,370
31 – 60 days	**2,332**	3,327
61 – 90 days	**677**	131
91 – 365 days	**1,133**	2,640
Over 365 days	**155**	41
	14,241	14,509

At each reporting date, the Group reviewed receivables for evidence of impairment on both an individual and collective basis. As at 31 December 2011 and 2010, no allowance for impairment loss was recognised.

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

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

	2011	2010
	HK$'000	*HK$'000*
Not yet past due	**9,938**	9,024
1 – 90 days past due	**3,763**	3,597
91 – 180 days past due	**358**	1,776
181 – 365 days past due	**31**	74
Past due more than 365 days	**151**	38
	14,241	14,509

Trade receivables that were neither past due nor impaired 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 number of customers that had a good track record of credit with the Group. Based on past credit history, management believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered to be fully recoverable. As at 31 December 2011, the Group did not hold any collateral in respect of trade receivables past due but not impaired.

21. HELD-TO-MATURITY FINANCIAL ASSETS - GROUP

	2011	2010
	HK$'000	*HK$'000*
Treasury bills, at amortised cost	**36**	36

Treasury bills are listed outside Hong Kong, have a fixed yield of 1.20% (2010: 3.35%) per annum and will be matured on 22 August 2012 (2010: 2 February 2011). The market value of these held-to-maturity financial assets is HK$36,000 (2010: HK$36,000).

22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash at banks and in hand	**21,267**	14,323	**326**	580
Short-term bank deposits	**1,000**	1,000	**—**	—
	22,267	15,323	**326**	580

Short-term bank deposits earn interest at 0.15% (2010: 0.18%) per annum and have a maturity of 30 (2010: 30) days. These deposits are eligible for immediate cancellation without receiving any interest for the last deposit period.

Included in bank and cash balances of the Group as at 31 December 2011 are bank balances of HK$1,247,000 (2010: HK$2,511,000) denominated in Renminbi ("RMB") which are placed with the banks in the PRC. RMB is not a freely convertible currency. Under the PRC'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.

The Company did not have any cash or deposits denominated in RMB as at 31 December 2011 (2010: Nil).

23. TRADE PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables	**9,518**	7,774	**—**	—
Deposits received	**20,220**	1,821	**—**	—
Accruals	**5,420**	4,014	**276**	253
	35,158	13,609	**276**	253

23. TRADE PAYABLES, ACCRUALS AND DEPOSITS RECEIVED *(continued)*

Based on the invoice dates, ageing analysis of the Group's trade payables is as follows:

	2011	2010
	HK$'000	*HK$'000*
0 – 30 days	4,340	4,094
31 – 60 days	4,517	2,964
61 – 90 days	503	631
91 – 365 days	112	39
Over 365 days	46	46
	9,518	7,774

24. BANK BORROWINGS, SECURED - GROUP

	2011	2010
	HK$'000	*HK$'000*
Trust receipt loans	—	4,551
Term loans	8,285	5,500
	8,285	10,051

Bank borrowings are interest-bearing at floating rates of Hong Kong Interbank Offered Rate ("HIBOR") plus a spread.

Based on the scheduled repayment dates set out in the loan agreements, the Group's bank borrowings were repayable as follows:

	2011	2010
	HK$'000	*HK$'000*
Within one year	3,693	5,751
In the second year	2,692	1,200
In the third to fifth year	1,900	3,100
	8,285	10,051

24. BANK BORROWINGS, SECURED - GROUP *(continued)*

The Group's bank loan agreements contain clauses which give the banks the right at its sole discretion to demand immediate repayment at any time irrespective of whether the Group has met the scheduled repayment obligations. Accordingly, the amounts due for repayment after one year are classified as current liabilities. None of the amounts due for repayment after one year is expected to be settled within one year.

As at 31 December 2011, the Group's bank borrowings are secured by:

(i) corporate guarantee from the Company; and

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

The bank loans are subjected to the fulfilment of covenants on certain financial ratios, before the repayments of principal and related interest. The Group regularly monitors its compliance with these covenants. At the reporting date, none of the covenants had been breached.

25. DEFERRED TAX LIABILITIES - GROUP

Deferred tax liabilities represent accelerated tax depreciation allowances in respect of plant and equipment. Movements in the deferred tax liabilities during the year are as follows:

	2011	2010
	HK$'000	*HK$'000*
At 1 January	**641**	564
Charged to profit or loss (note 10)	**259**	77
At 31 December	**900**	641

The Group has unrecognised estimated tax losses of HK$6,653,000 (2010: HK$7,114,000) to carry forward against future taxable income. Under the current tax legislation, unrecognised estimated tax losses of HK$3,695,000 (2010: HK$4,163,000) of certain subsidiaries operating in the PRC are subject to expiry period of five years from the year in which the tax loss arose under the current tax legislation, the remaining estimated tax losses of HK$2,958,000 (2010: HK$2,951,000) can be carried forward indefinitely. No deferred tax asset has been recognised in respect of the estimated tax losses due to the unpredictability of future profit streams against which these unused tax losses can be utilised.

26. SHARE CAPITAL

	2011		2010	
	Number of shares		Number of shares	
	'000	*HK$'000*	*'000*	*HK$'000*
Ordinary shares of HK$0.10 each				
Authorised:				
At 1 January and 31 December	**1,000,000**	**100,000**	1,000,000	100,000
Issued and fully paid:				
At 1 January	**283,161**	**28,316**	282,600	28,260
Issue of ordinary shares upon exercise of share options	**—**	**—**	561	56
At 31 December	**283,161**	**28,316**	283,161	28,316

27. SHARE-BASED COMPENSATION

Pursuant to resolutions of the shareholders passed on 27 October 2003, a share option scheme (the "Scheme") was adopted. 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. Accordingly, the Company issued options under the Scheme to subscribe for 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.

27. SHARE-BASED COMPENSATION *(continued)*

The number of share options, weighted average exercise price and the terms and conditions of the grants are as follows:

	Grant date	At 1 January	Granted	Exercised	Lapsed	At 31 December	Period during which the options are exercisable	Exercise price per share
2011								
Number of share options								
– Employees	27 October 2003	900,776	—	—	—	900,776 (note)	10 May 2004 to 20 January 2013	HK$0.24
		900,776	—	—	—	900,776		
Weighted average exercise price		HK$0.24	—	—	—	HK$0.24		
2010								
Number of share options								
– 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
– Employees	27 October 2003	900,776	—	—	—	900,776 (note)	10 May 2004 to 20 January 2013	HK$0.24
		1,463,245	—	(560,910)	(1,559)	900,776		
Weighted average exercise price		HK$0.18	—	HK$0.09	HK$0.09	HK$0.24		

Note:

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 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.

27. SHARE-BASED COMPENSATION *(continued)*

The total number of securities available for issue under the Scheme as at 31 December 2011 was 900,776 (2010: 900,776) shares, which represented 0.3% (2010: 0.3%) of the issued share capital of the Company at that date. The maximum number of securities issued and to be issued upon exercise of the options granted shall be 6,535,631 shares of HK$0.10 each.

The weighted average closing price of the Company's ordinary shares immediately before the date on which the share options were exercised during 2010 was HK$0.47.

The options outstanding at 31 December 2011 had a weighted exercise price of HK$0.24 (2010: HK$0.24) and a weighted average remaining contractual life of 1.1 year (2010: 2.1 years).

28. RESERVES

Company

	Share premium *HK$'000*	Accumulated losses *HK$'000*	Proposed dividend *HK$'000*	Total *HK$'000*
Balance as at 1 January 2010	17,835	(8,110)	3,109	12,834
2009 dividends approved (note 12)	—	—	(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 as at 31 December 2010 and 1 January 2011	17,829	(9,102)	—	8,727
Loss and total comprehensive income for the year	—	(993)	—	(993)
Balance as at 31 December 2011	**17,829**	**(10,095)**	**—**	**7,734**

28. RESERVES *(continued)*

Company *(continued)*

Under the Companies Law (2009 Revision) of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which a dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

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

Group

The amount of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 44 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 in a prior year.

29. OPERATING LEASE COMMITMENTS

The Group leases a number of properties under operating lease arrangements. Leases are negotiated for terms of one to five years (2010: one to five years). None of the leases include contingent rentals.

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

	2011	2010
	HK$'000	*HK$'000*
Within one year	**2,245**	1,636
In the second to fifth years, inclusive	**1,064**	1,421
	3,309	3,057

The Company did not have any significant operating lease commitments as lessee as at 31 December 2011 (2010: Nil).

30. RELATED PARTY TRANSACTIONS

Key management of the Group are members of the board of directors and senior management. Key management personnel remuneration of the Group is as follows:

	2011	2010
	HK$'000	*HK$'000*
Salaries and other short-term employee benefits	**6,850**	6,373
Retirement benefits costs	**96**	96
	6,946	6,469

At 31 December 2011, the Company has given corporate guarantees to the banks to the extent of HK$28,000,000 (2010: HK$18,000,000) for certain banking facilities granted to one of its subsidiaries.

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group does not have other material transactions with related parties during the year.

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

The Group is exposed to market risk (including currency risk, interest rate risk), credit risk and liquidity risk in its normal course of business and investing and financing activities.

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 minimising 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.

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS *(continued)*

31.1 Categories of financial instruments

The categories of financial assets and financial liabilities included in the statements of financial position and the headings in which they are included are as follows:

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets				
Loans and receivables				
- Trade receivables	**14,241**	14,509	**—**	—
- Other receivables	**777**	719	**—**	—
- Cash and cash equivalents	**22,267**	15,323	**326**	580
- Amounts due from subsidiaries	**—**	—	**21,931**	22,547
	37,285	30,551	**22,257**	23,127
Held-to-maturity financial assets	**36**	36	**—**	—
	37,321	30,587	**22,257**	23,127
Financial liabilities				
At amortised cost				
- Trade payables	**9,518**	7,774	**—**	—
- Accruals	**5,420**	4,014	**276**	253
- Bank borrowings	**8,285**	10,051	**—**	—
	23,223	21,839	**276**	253

31.2 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 exposure to currency risk arises from its overseas sales and purchases, which are primarily denominated in Euro dollars ("EURO"), United States dollars ("US$") and RMB. Furthermore, the Group has bank deposits and borrowings denominated in these foreign currencies. These are not functional currencies of the group entities to which these transactions related.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS *(continued)*

31.2 Currency risk *(continued)*

The Group reviews its foreign currency exposures regularly and does not consider its currency risk to be significant. However, the Group would consider hedging of its currency risk exposures if its currency risk becomes significant.

The following table details the foreign currency denominated financial assets and financial liabilities of the Group, translated into HK$ at closing rates:

	Expressed in HK$'000		
	EURO	US$	RMB
As at 31 December 2011			
Trade receivables	**5,272**	**7,241**	**—**
Other receivables	**—**	**4**	**—**
Cash and cash equivalents	**569**	**18,201**	**50**
Trade payables and accruals	**(278)**	**(2,550)**	**(2,618)**
Net exposure	**5,563**	**22,896**	**(2,568)**

	Expressed in HK$'000		
	EURO	US$	RMB
As at 31 December 2010			
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)	—
Net exposure	5,830	9,897	(1,659)

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS *(continued)*

31.2 Currency risk *(continued)*

The following table details the foreign currency denominated financial assets and financial liabilities of the Company, translated into HK$ at the closing rates:

	Expressed in HK$'000		
	EURO	US$	RMB
As at 31 December 2011			
Cash and cash equivalents	—	179	—
Accruals	—	(6)	—
Net exposure	—	173	—

	Expressed in HK$'000		
	EURO	US$	RMB
As at 31 December 2010			
Cash and cash equivalents	—	119	—
Net exposure	—	119	—

At 31 December 2011, if HK$ had weakened/ strengthened by 5% against EURO and RMB with all other variables held constant, the Group's profit after income tax for the year would have been HK$150,000 (2010: HK$209,000) higher/ lower, mainly as a result of foreign exchange gains/ losses on translation of EURO and RMB. As HK$ is pegged to US$, the Group's and the Company's income and operating cash flows are substantially independent of changes in exchange rates of US$.

The stated changes represented management's best assessment of reasonably possible changes in foreign exchange rates over the period until the next annual reporting date. The analysis is performed on the same basis for the year ended 31 December 2010.

31.3 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 borrows loans and places deposits with banks at floating interest rates. Exposure to floating interest rate presents when there are unexpected interest rate movements. The Group has not used any interest rate swap to hedge its exposure to interest rate risk.

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS *(continued)*

31.3 Interest rate risk *(continued)*

At 31 December 2011, if interest rates had increased/ decreased by 0.5% (2010: 0.5%), with all other variables held constant, the Group's profit after income tax for the year would increase/ decrease by approximately HK$6,000 (2010: HK$59,000). As the Company does not have significant interest-bearing assets and liabilities, the Company's income and operating cash flows are substantially independent of changes in market interest rate.

The stated changes represented management's best assessment of reasonably possible changes in interest rates over the period until the next annual reporting date. The analysis is performed on the same basis for the year ended 31 December 2010.

31.4 Credit risk

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 the credit terms granted to the customers in the ordinary course of operations and from its investing activities. The Group does not provide any financial guarantee which exposes to credit risk.

Credit risk for trade receivables is concentrated as 31% (2010: 27%) of total trade receivables are due from the Group's largest customer. However, management of the Group closely monitors the collection of payments from customers and review the overdue balances regularly. For sales to new customers, deposits are received to mitigate credit risk. The Group has also adopted a no-business policy with customers lacking an appropriate credit history. In this regards, directors consider that the credit risk on trade receivables is significantly reduced. Further details of the exposure to credit risk on trade receivables are set out in note 20.

Credit risk for liquid funds is considered negligible as the counterparties are reputable banks with good external credit ratings. No other financial assets carry a significant exposure to credit risk.

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

31.5 Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities. The Group is exposed to liquidity risk in respect of settlement of trade payables and accruals and its financing obligations, and also in respect of its cash flow management.

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS *(continued)*

31.5 Liquidity risk *(continued)*

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 remaining contractual maturities for its financial liabilities as at 31 December 2011 and 2010. When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date which the Group can be required to pay. Bank borrowings with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choose to exercise their rights within one year after the reporting date. The maturity analysis for other financial liabilities is prepared based on the scheduled repayment dates.

	On demand or within 1 year *HK$'000*	Between 1 and 2 years *HK$'000*	Between 2 and 5 years *HK$'000*
At 31 December 2011			
Trade payables	**9,518**	**—**	**—**
Accruals	**5,420**	**—**	**—**
Bank borrowings*	**8,285**	**—**	**—**
	23,223	**—**	**—**
At 31 December 2010			
Trade payables	7,774	—	—
Accruals	4,014	—	—
Bank borrowings*	10,051	—	—
	21,839	—	—

* Bank borrowings with a repayment on demand clause are categorised as "On demand or within 1 year" in the above maturity analysis. As at 31 December 2011, the aggregate undiscounted principal amounts of these financial liabilities amounted to HK$8,608,000 (2010: HK$10,383,000).

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS *(continued)*

31.5 Liquidity risk *(continued)*

The following table summarises the maturity analysis of the Group's bank borrowings containing a repayment on demand clause based on the agreed scheduled repayment dates set out in the respective agreements. The amounts include interest payments computed using contractual rates. Taking into account the Group's financial position, the directors of the Company consider that it is not probable that these banks will exercise their discretionary rights to demand for immediate repayment and such bank borrowings will be repaid in accordance with the scheduled repayment dates set out in the respective agreements.

	On demand or within 1 year *HK$'000*	Between 1 and 2 years *HK$'000*	Between 2 and 5 years *HK$'000*
At 31 December 2011			
Bank borrowings	**3,887**	**2,778**	**1,943**
At 31 December 2010			
Bank borrowings	5,879	1,297	3,207

Except for the accruals stated in the Company's statement of financial position, which are due to be settled within 1 year, the Company has no financial liabilities other than financial guarantee issued as at 31 December 2011 and 2010 (note 24(i)), which represented the maximum amount the Company could be forced to settle if that amount is claimed by the counterparty to the guarantee. Based on expectations as at the reporting date, the directors of the Company considers that it is more likely than not that such an amount will not be payable under the arrangement.

31.6 Fair value measurements

The fair value of the Group's and Company's financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments.

32. CAPITAL RISK MANAGEMENT

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 24, and equity attributable to owners of the Company, comprising issued share capital disclosed in note 26 and reserves as disclosed in note 28 and the consolidated statement of changes in equity. The Group will balance its overall capital structure through the payment of dividends, issues of shares as well as the issue of new debt or the redemption of existing debt. The Group's overall strategy remains unchanged throughout the year.

Subsidiaries established in the PRC are required to contribute to and maintain a non-distributable statutory reserve fund whose utilisation is subject to certain restrictions as set out in the relevant regulations in the PRC. In addition, the Group is subjected to the requirement on maintenance of certain financial ratios imposed by the banks as disclosed in note 24. The externally imposed capital requirements have been complied with by the Group for the years ended 31 December 2011 and 2010.



FINANCIAL SUMMARY

31 December

	2011	2010	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
RESULTS					
Revenue	**117,488**	93,729	104,963	96,094	59,326
Cost of sales and services provided	**57,043**	43,086	52,521	51,625	29,678
Gross profit	**60,445**	50,643	52,442	44,469	29,648
Gross profit margin	**51%**	54%	50%	46%	50%
Profit for the year	**5,119**	4,434	12,219	9,704	4,306
Net profit margin	**4%**	5%	12%	10%	7%
ASSETS AND LIABILITIES					
Total assets	**108,018**	81,741	76,758	58,154	45,623
Total liabilities	**45,053**	24,301	20,853	12,342	8,351
Total equity	**62,965**	57,440	55,905	45,812	37,272