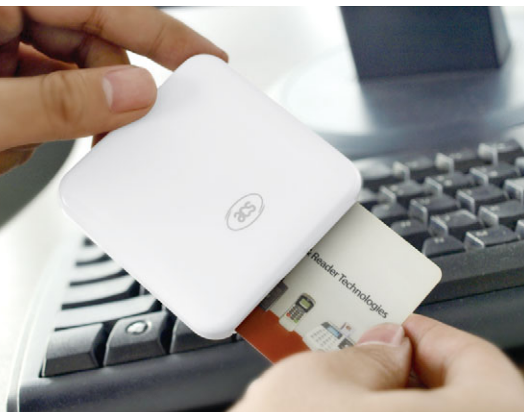
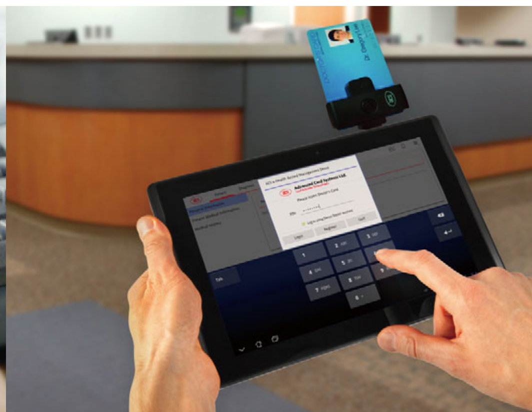
Advanced Card Systems Holdings Limited

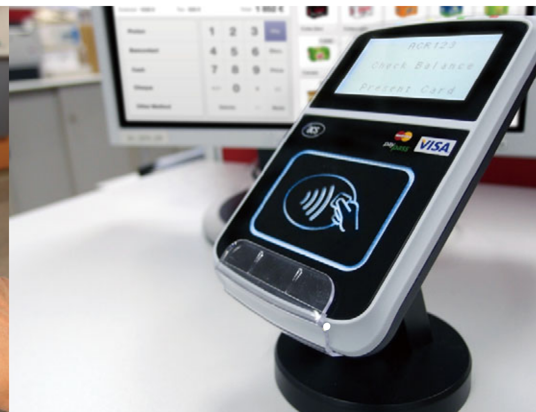
龍傑智能卡控股有限公司*

(incorporated in the Cayman Islands with limited liability)

Stock code: 8210







Annual Report 2013

* *For identification only*

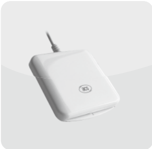
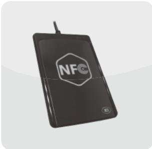
CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

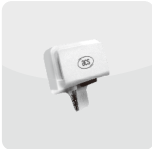
GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest 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.

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 4 independent non-executive directors, Dr. Yip Chak Lam, Peter, Mr. Yu Man Woon, Mr. Wong Yick Man, Francis and Lo Kar Chun, Nicky, SBS, JP.



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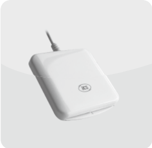
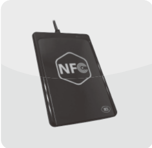
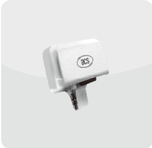




CORPORATE INFORMATION

DIRECTORS

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

Independent Non-executive Directors
Dr. Yip Chak Lam, Peter
Mr. Yu Man Woon
Mr. Wong Yick Man, Francis
Mr. Lo Kar Chun, Nicky, SBS, JP

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
Mr. Lo Kar Chun, Nicky, SBS, JP

REMUNERATION COMMITTEE

Dr. Yip Chak Lam, Peter *(Chairman)*
Mr. Wong Yiu Chu, Denny
Mr. Yu Man Woon
Mr. Lo Kar Chun, Nicky, SBS, JP

NOMINATION COMMITTEE

Mr. Wong Yiu Chu, Denny *(Chairman)*
Ms. Tsui Kam Ling, Alice
Dr. Yip Chak Lam, Peter
Mr. Yu Man Woon
Mr. Wong Yick Man, Francis
Mr. Lo Kar Chun, Nicky, SBS, JP

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

Australia and New Zealand Banking Group Limited
Citibank, N.A.
DBS Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

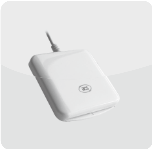
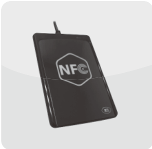
Computershare Hong Kong Investor Services Limited
17M Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

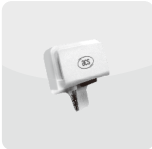
COMPANY'S WEBSITE ADDRESS

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 2013.

The Group, building on the momentum of 2012, recorded in 2013 sales revenue of HK$194 million, representing an increase of 21% over the same period last year. The Group also recorded a 30% increase in gross profit and 38% increase in net profits.

HISTORY

ACS was founded in 1995 and during the first ten years of business, ACS focused on developing card operating systems and PC-linked smart card readers. In 2003, ACS was ranked as the world's 4th largest supplier of PC-linked smart card readers. In the same year, ACS became listed in the Hong Kong Stock Exchange. Using funds generated by the business of card operating systems and PC-linked readers, ACS began to develop more sophisticated smart card terminals as well as a complete smart card-related application – an Automatic Fare Collection (AFC) system solution for public transportation. In 2010, ACS became the world's 3rd largest supplier of PC-linked smart card readers, continuing to work hard in the market where it gained recognition, and at the same time strengthening its product portfolio and penetrating other markets. Building on the momentum, in 2013, ACS has been able to expand its solution business and secure orders in various countries, providing healthy future revenue streams for the Group.

DIRECTION AND OUTLOOK

With 19 years of experience, the Group has a solid foundation in its technology business. It has the intentions to leverage its expertise and expand its business into other new and larger markets. By leveraging the wide range of technology expertise, the Group can develop more sophisticated products and solutions. In 2013, the Group also appointed the President for the Americas market in order to expand its US market shares after appointing the President for the Japanese market in 2012.

THANK YOU

I would like to take this opportunity to express my appreciation to the Group's staff members for their dedication and hard work, to the independent non-executive directors for their advices and to our business partners and shareholders for their continual support.

WONG Yiu Chu, Denny
Chairman and CEO

Hong Kong, 17 March 2014

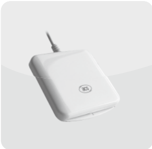
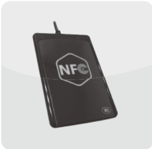
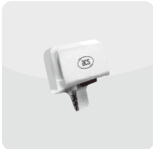
FINANCIAL REVIEW

The Group's sales revenue in the year ended 31 December 2013 increased by 21% compared to the previous year (2013: HK$194 million; 2012: HK$161 million). The sales revenue is grouped into four regions as shown below:

	2013 *HK$'000*	2012 *HK$'000*	Change
Asia Pacific	**73,323**	43,480	+69%
Europe	**68,288**	57,801	+18%
The Americas	**40,814**	47,212	–14%
Middle East and Africa	**11,935**	12,362	–3%
	194,360	160,855	+21%

The Group's 2013 sales revenues increased significantly in Asia Pacific. This is due to the fast growing Automatic Fare Collection Solution business. The Europe region has also seen a healthy growth. The perceived decrease in The Americas region was due to the corresponding large figure of 2012, when sizable orders were delivered. In fact, the Group's 2013 sales revenue in The Americas was historically the second highest ever achieved in the region, behind only to 2012's figure.

	2013 *HK$'000*	2012 *HK$'000*
Revenue	**194,360**	160,855
Cost of sales and services provided	**(81,340)**	(74,009)
Gross profit	**113,020**	86,846
Other income and gains	**975**	269
Selling and distribution costs	**(19,218)**	(13,325)
Research and development expenses	**(32,498)**	(22,240)
Administrative expenses	**(34,292)**	(29,755)
Finance costs	**(759)**	(352)
Profit before income tax	**27,228**	21,443
Income tax expense	**(4,025)**	(4,569)
Profit for the year, attributable to owners of the Company	**23,203**	16,874

FINANCIAL REVIEW *(continued)*

The Group's 2013 gross profits increased by 30% compared to the previous year (2013: HK$113,020k; 2012: HK$86,846k). The Group's 2013 gross profit margin increased to 58% (2012: 54%). The increased gross profits were mainly attributed to the sales of more sophisticated smart card products and Automatic Fare Collection Solution which generally have higher gross profit margins.

The Group's 2013 total expenses increased by 32% compared to the previous year (2013: HK$86,767k; 2012: HK$65,672k). This increase can be attributed to the increased headcount (31 December 2013 headcount: 289; 31 December 2012 headcount: 271) as well as increased selling and distribution costs and research and development expenses owing to increased activities in sales and marketing and further strengthened research and development team.

The Group's 2013 profit for the year increased by 38% compared to the previous year (2013: HK$23,203k; 2012: HK$16,874k). The increase can be attributed to sizable increases in sales revenue and gross profits and controlled total expenses, made possible by our product portfolio of more sophisticated products with a higher gross profit margin, as well as a more productive staff force assisted by an improved internal IT, communication and automation system. Additionally, previous trainings and accumulated experience have also added to the staff members' increased productivity.

	2013 *HK$'000*	2012 *HK$'000*
ASSETS AND LIABILITIES		
Non-current assets		
Plant and equipment	**7,238**	9,578
Development costs	**32,260**	29,311
Deferred tax assets	**593**	–
	40,091	38,889
Current assets		
Inventories	**44,094**	34,766
Trade and other receivables, prepayments and deposits paid	**31,784**	19,948
Held-to-maturity financial assets	**71**	38
Cash and cash equivalents	**48,614**	34,223
	124,563	88,975
Current liabilities		
Trade payables, accruals and deposits received	**26,566**	29,075
Bank borrowings, secured	**36,341**	14,218
Current tax liabilities	**1,028**	3,465
	63,935	46,758
Net current assets	**60,628**	42,217
Total assets less current liabilities	**100,719**	81,106

FINANCIAL REVIEW *(continued)*

	2013 HK$'000	2012 HK$'000
Non-current liabilities		
Deferred tax liabilities	**511**	729
Defined benefit obligations	**261**	303
	772	1,032
Net assets	**99,947**	80,074
EQUITY ATTRIBUTABLE TO COMPANY'S OWNERS		
Share capital	**28,406**	28,406
Reserves	**71,541**	51,668
Total equity	**99,947**	80,074

The inventories increased to HK$44 million at 2013 year end from HK$35 million a year earlier owing to increase in sales and owing to more raw materials stocked in anticipation of production in the coming months against orders that require advanced acquisition of raw materials.

In 2013, the Group arranged more bank lines in the form of term loans as we expected that there would be more business of offering smart card solutions which would require the Group to invest upfront for return in the form of future streams of revenue. Since the term loans had been drawn at 2013 year end, the bank borrowing increased to HK$36 million versus HK$14 million a year ago. The cash also increased to HK$49 million from HK$34 million. At 2013 year end, total cash still exceeded bank borrowing outstanding.

The trade and other receivables, prepayments and deposits paid increased to HK$32 million at 2013 year end from HK$20 million a year ago. The increase in the portion of business in offering solutions resulted in wider fluctuations in accounts receivable. Form time to time, customers may make substantial deposits to the Group. At the same time, for the business of offering automatic fare collection solution, we may agree to accept a long payment term if justified by the relative low credit risks and long-termed future stream of income. Overall, we have had historically a good record in managing accounts receivable.

DIVIDEND

The board of directors (the "Board") has recommended the payment of a final dividend of HK2.0 cents (2012: HK1.5 cents) per share, totalling of HK$5.7 million, for the year ended 31 December 2013. Subject to approval by the shareholders at the forthcoming annual general meeting on 21 May 2014, the final dividend will be paid on 4 June 2014 to shareholders whose names appear on the register of members of the Company on 29 May 2014.

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

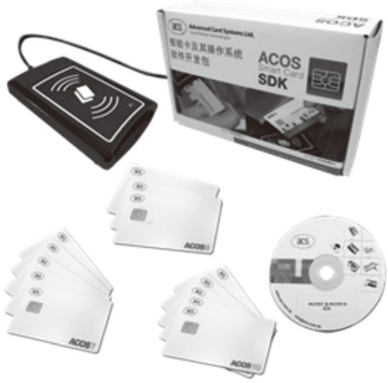
BUSINESS REVIEW

The Group has been investing heavily in research and development and accumulating a lot of technology expertise in many areas in-house and started seeing the benefits of improved sales. The Group has also a strong intention to expand its businesses by developing more sophisticated products with healthy gross margin in larger markets. By tapping into these new markets, the Group can enjoy new revenue streams. In particular, the Group has seen a healthy growth in its solution business.

By continually improving the internal collaboration platform and standard operating procedures, the Group has streamlined its communications across multiple office locations and improved the efficiency of the workforce. The Group also emphasizes on applying the best practice of the industry and spent resources in building a great company system.

On top of and partly due to the Group's higher productivity, the Group has been able to provide more sophisticated products. The following are some products officially launched in 2013:

Software Development Kit for ACOS7 and ACOS10 Combi Cards



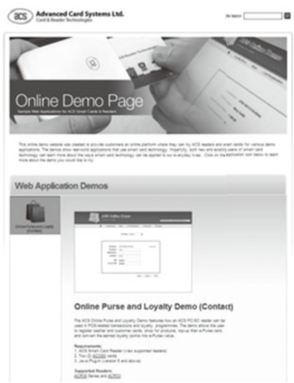
The SDK's technical documents, demo application, and smart card and reader tool offer Chinese language support, in addition to English.

The ACOS7 was designed primarily to meet the requirements of the world automated fare collection (AFC) market. In keeping with the concept of the all-in-one card, the ACOS7 has a dual interface, and supports multiple e-purse and e-deposit transactions. Meanwhile, the ACOS10 Combi provides an ideal banking solution, supporting credit load and unload, purchase, withdrawal, overdraw limit updates, and transaction log reviews. Both cards have passed different certifications and complied with various industry standards. ACOS 7 is compliant with ISO 7816 Parts 1–4, ISO 14443 Parts 1–4, and the Ministry of Construction (MoC) Standard in China (which ensures that it can meet the requirements of automated fare collection or AFC, and e-payment). Meanwhile, the ACOS10 Combi Card is compliant with ISO 7816 Parts 1–4 and ISO 14443 Parts 1–4. Both cards support People's Bank of China (PBOC) e-Deposit and e-Purse payment applications.

The SDK includes tools such as ACS QuickView, PC/SC Learning Tool, ACS Script Tool 3, and the ACS Smart Card and Reader Tool. Sample codes are available in the most commonly used programming languages. Through these, developers can significantly reduce research and development time, engineering costs, and time-to-market.

BUSINESS REVIEW *(continued)*

Online Demo for Loyalty and e-Purse Applications



ACS launched a loyalty and e-purse application demo entitled "Online Purse and Loyalty Demo (Contact)," which may be accessed online using ACOS3 Smart Cards, and either an ACR38U Smart Card Reader or an ACR33U-A1 SmartDuo Smart Card Reader.

The demo shows how to implement point of sale (POS)-related transactions and loyalty programs with the ACOS3 and ACS's PC-linked contact card readers. Specifically, it demonstrates how to create and replenish stored value for e-Purse cards, shop for products, and convert loyalty points to e-Purse value.

ACS will be creating more demos for other devices (e.g. for contactless cards and readers) and applications. These upcoming demos will be uploaded on http://demo.acs.com.hk/, a webpage solely for users to try out applications using ACS devices. The webpage and demos are both supported by latest versions of Internet Explorer, Mozilla Firefox and Google Chrome.

Demos available online will help ACS provide efficient, on-demand support. Smart card technology improves life of thousands of people in big and little ways, from keeping bank transactions safe, to shortening time spent on checkout lines. The online demo helps developers unleash the smart card potential, by providing them all the support and information we can. The more we show people how to apply smart card technology in the real world, the faster we benefit people.

Robust E-Banking Security with APG8205 Dynamic Password Generator

BUSINESS REVIEW *(continued)*

Robust E-Banking Security with APG8205 Dynamic Password Generator *(continued)*

ACS offers the APG8205 to enhance and strengthen security in today's banking environment. Belonging to ACS's Dynamic Password Generators product line, the APG8205 provides a two-factor authentication solution that protects online banking customers and merchants alike from malicious attacks.

The APG8205 is the next-generation dynamic password generator from ACS that offers a sleeker, thinner and more modern design. Built with a clear LCD and responsive keypad, it enables user-friendly and convenient operations. Beyond its physical attributes, however, it is APG8205's strong two-level mutual authentication capability that is most noteworthy. By authenticating using two factors-something users have (a MasterCard CAP/Visa DPA card) and something users know (a PIN)-risks of fraudulent attacks like "Card-Not-Present" scenarios could be greatly mitigated, making online banking transactions much safer.

With its compliance to major banking, computing and safety standards, namely, Mastercard® Chip Authentication Program (CAP), VISA Dynamic Passcode Authentication (DPA) and EMV Level 1 Certification, APG8205 is a reader all stakeholders in the banking industry can trust.

ACR1283L VisualVantage Standalone Contactless Reader

ACS launched the ACR1283L VisualVantage Standalone Contactless Reader, in response to continued growth in the use of contactless smart cards worldwide.

The ACR1283L is the latest addition to ACS's VisualVantage Series of LCD-equipped contactless readers supporting ISO 14443 cards and Mifare variants. Applications suited to the ACR1283L include payment and customer loyalty programs, and time and attendance systems.

Supporting both PC-linked and standalone operations, the ACR1283L provides users with more benefits when implementing contactless applications such as:

Rich User Interaction – ACR1283L comes with various peripherals: two-line graphic LCD, four LEDs, buzzer and twelve-key capacitive touch keypad to enhance user experience.

BUSINESS REVIEW *(continued)*

ACR1283L VisualVantage Standalone Contactless Reader *(continued)*

Security – ACR1283L is equipped with four built-in ISO 7816-compliant secure access module (SAM) slots to boost security. ACR1283L also has an in-device AES, DES and 3DES encryption capability that adds another layer against malicious attacks associated with PCs.

Flexibility – ACR1283L can support post-deployment remote firmware update.

Mobile Card Readers

ACS has released a line of Mobile Device Card Readers. ACS currently enables mobility by housing powerful readers in the smallest form factors. It was enough years ago for users to have a reader that fits in the pocket, to be plugged into a PC. But developments in mobile devices have presented us with a new challenge. Mobile devices can now perform many functions of a PC, and many users are starting to prefer the former for the majority of their activities. By developing readers that they can use with smart phones and tablets, ACS is enabling true mobility for such users.

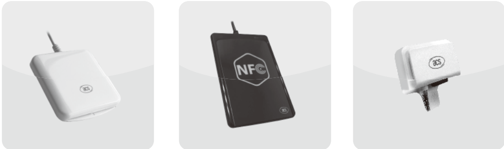
ACS has released two new mobile device card readers: the ACR38U PocketMate II and the ACR31 Swipe.

The *ACR38U PocketMate II* is a token-sized device that transforms into a full-sized smart card reader with a single swivel motion. It houses the ACR38 core, which has been proven to meet the requirements of highly demanding smart card applications. The ACR38U PocketMate II supports ISO7816 Class A, B and C (5V, 3V, 1.8V) cards, microprocessor cards with T=0 and T=1 protocol, and most memory cards. With its Micro USB OTG interface, it can support most smartphones and tablets in the market that run on Android™ OS. It is compliant with EN60950/IEC60950, ISO7816, CE, FCC, VCCI, PC/SC, CCID, EMV 2000 Level 1, and RoHS standards, for maximum security and versatility.

Meanwhile, the *ACR31 Swipe* is a phone jack card reader that supports high and low coercivity magnetic stripe cards and can read tracks 1 and 2 of most ISO7810 and ISO7811 – compliant cards, as well as cards compliant to JIS1 and JIS2 standards. It uses AES-128 encryption algorithm to secure transactions.

The ACR31 Swipe supports most Android and iOS devices. To show the functionalities of the ACR31 Swipe, ACS has developed the ACR31 EasySwipe application, an iOS-based demo that shows the functionalities of the ACR31 Swipe Card Reader. An Android version of the application will also be available on Google Play.

ACS will also launch a phone jack card reader that supports magnetic stripe and contactless cards, and a phone jack card reader that supports magnetic stripe and contact cards.



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(continued)*

Mobile Card Readers *(continued)*

The following are some milestones in 2013:

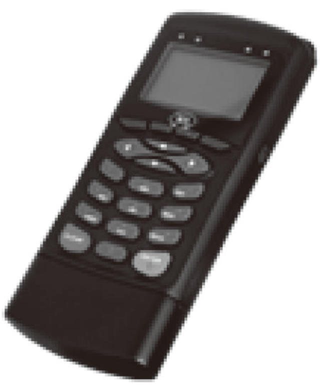
ACS Solution Helps Increase Convenience and Security in SM Prepaid and Loyalty Program

ACS was chosen as the technology partner of SM Prime Holdings, Inc. (SM), one of the largest mall developer, operator and retail company with 48 shopping malls in the Philippines, for its smart card-based prepaid and loyalty solution, the e-PLUS Tap to Pay.

e-PLUS Tap to Pay is a stored value contactless smart card that embodies the all-in-one card concept. Using ACS's card and reader technologies, e-PLUS Tap to Pay Card can be used for cashless payment in SM's Cinemas, IMAX Theatres, Directors Club Cinemas, parking facilities, skating rinks, bowling, amusement centers, food courts, select food and non-food merchants in the SM Malls. Also, it is accepted for payment in select transport shuttles, and is even being deployed in some school cafeterias, bookstores and printers.

To encourage usage of the system, SM and its partner merchants and brand are offering discounts, privileges and other exclusive rewards to the e-PLUS Tap to Pay members. Part of the cardholders' privilege is convenient access to SM cinemas, as they can go straight to their theatre of choice, without falling in line at ticket booths. SM hopes to have 1 million card holders by June 2014.

ACS's ACR89 Helps Streamline Labor-Related Processes in Middle Eastern Country



ACS was chosen as the certified supplier of smart card readers for an online e-government transaction system in a Middle-Eastern country.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(continued)*

ACS's ACR89 Helps Streamline Labor-Related Processes in Middle Eastern Country *(continued)*

The ACR89 is a handheld smart card reader with PIN-pad, suited for e-government, e-banking and e-payment, e-health, transportation, and loyalty applications. It operates in both PC-linked and standalone modes to provide flexibility.

ACS's ACR89 was chosen to enable a web-based e-government application that simplifies all labor-related management and processes between companies and the government. To facilitate the use of the system, the ACR89 reader is either issued by the government directly to companies, or deployed in different service centers throughout the country for more convenient access.

Using the ACR89, companies can add or remove employees in a national registry. They can also use it to submit documents such as work permits, company licenses and labor contracts directly to the government. Through the device, they may also print receipts or access other services over the Internet, such as viewing transactions and generating reports.

To complete and authorize each transaction, a company representative needs to present an e-signature via two-factor authentication: a user simply inserts his/her national ID card, which contains an e-certificate (what he has) and inputs his/her PIN (what he knows) on the ACR89.

Through a two-factor authentication system, company data is safeguarded even after e-certificate/ID theft. The ACR89 also supports secure pin entry, which protects PIN codes from viruses and similar threats. The ACR89 also has a tamper detection switch, which will erase all data and programs in the device during intrusion.

Compared to traditional systems, a web-based system for handling labor-related management and processes requires less resources (time, paper forms, personnel, etc.), generating more savings for companies who utilize this e-government transaction system. Additionally, the overall management of labor records becomes more organized and secure, resulting in greater efficiency for both the government and the project's users.

BUSINESS REVIEW *(continued)*

ACS's ACR320 Ticket Validator Design Lauded in 2013 Hong Kong Awards for Industries

ACS has been awarded the Machinery and Machine Tools Design Certificate of Merit in the 2013 Hong Kong Awards for Industries (HKAI). The award recognizes ACS's ACR320 Ticket Validator, a powerful all-in-one Automatic Fare Collection (AFC) device for public transport. Simply put, it is a device to accept payment cards in buses or in the automatic gates in train systems.

ACS last received recognition in this category in 2009, when the HKAI awarded a Certificate of Merit to ACS's eH880 eHealth Smart Card Terminal. Entries are evaluated in terms of innovation, application of technology, functionality, ergonomics, cost performance, marketability, safety, and environmental impact.

Judges have noted that the ACR320 Ticket Validator ensures that "operators receive correct income, by eliminating free-riders or fraud. The product is competitive, inexpensive to build, and the operating cost is low. It has already established a market in several developing countries and has the potential to expand into other regions."

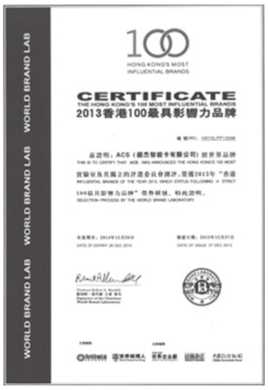
The ACR320 Ticket Validator includes a GPS module, which enables distance-based fare collection and aids in fleet management. Supporting ISO 14443 Type A & B, Mifare, and NFC-compliant cards, it is in keeping with the cashless trend, widely predicted to be the way of the future. It is also built with a strong 32-bit ARM11 processor which can complete typical transactions in 300 milliseconds (including recovery and backup).

Apart from the GPS module, it supports different connection modes for data transfer, including Wifi, 3G and Bluetooth. Dust and water-resistant, it is incorporated with over-voltage and over-current protection, card authenticity and validity checking, blacklist checking, and touchscreen capabilities.

This award proves the amount of thought that went into creating the ACR320 Ticket Validator. And the fact that we were recognized by the HKAI twice within 4 years shows how we aim to bring the best device to the market, every single time. This award has inspired us, more than ever, to develop solutions that deliver maximum value and innovation.

BUSINESS REVIEW *(continued)*

ACS was named as one of The Hong Kong's 100 Most Influential Brands 2013



ACS was named as one of "The Hong Kong's 100 Most Influential Brands for 2013" by the Word Brand Laboratory.

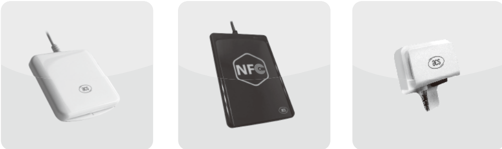
Being selected as an influential brand is proof not only of popularity, but also of a brand's capability to maximize shareholder value. The World Brand laboratory determines awardees through a mathematical valuation of intangible assets, including: customer loyalty, brand value, profitability, and market value. Past awardees of the distinction include internationally renowned enterprises like HSBC Hong Kong, Bank of China Hong Kong, and Cathay Pacific. Mr. Denny Wong, CEO and founder of ACS, accepted the award on behalf of ACS on Dec 27, 2013 in an award conferring ceremony (see picture).

As a worldwide leader on intangible asset valuation, the World Brand Laboratory has similarly assessed well-known brands for accounting, taxation and commercial purposes. It is also the organizer of "the World's 500 Most Influential Brands" and "the Asia's 500 Most Influential Brands."

This award validates the level of quality, innovation and service that ACS constantly strives to achieve. Since ACS was established, we have fostered a corporate culture of delivering on promises and maintaining integrity – this culture constantly builds a reputation for ACS. It is the vision of ACS combine scientific spirit and Confucius thoughts to build a sustainable electronic and information technology business which is green in order to achieve the dual purposes of business growth and environmental protection with this vision, ACS is building a reputation and a brand name.

PROSPECTS

Since the inception of the Company in 1995, the Group has been building up a wide range of advanced smart card and reader technologies in house, cultivating a strong R&D and technical support team. The Group has a competitive pricing through low cost structure, as comparing to many competitors. The Group has been viewed as a trustworthy and reliable supplier. And it was named as one of "The Hong Kong's 100 Most Influential Brands for 2013" by the Word Brand Laboratory. Also, with the flexibility and speed in adapting products to meet customer requirements, the Group was able to capture the fast growing new markets, especially in the Automatic Fare Collection systems.



PROSPECTS *(continued)*

The Group was chosen as the technology partner of SM Prime Holdings, Inc. (SM), one of the largest mall developer, operator and retail company with 48 shopping malls in the Philippines, for its smart card-based prepaid and loyalty solution, the e-PLUS Tap to Pay. It was a significant milestone for the Group to enter into solution business on top of its hardware business.

Riding on the growing adoption of smartphones and tablets, the Group has released a line of mobile device card readers for the growing market.

The Group has always been seeking opportunities to expand its businesses in many countries. In 2013, a new office was opened in USA after a new office was opened in Japan in 2012. The Group expects to bring in new opportunities in untapped markets, leveraging over 20 years of experience in the smart card reader industry from these two very important markets.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

At all times the Group maintains a healthy liquidity position. As at 31 December 2013, the Group's bank and cash balances amounted to HK$48.6 million (2012: HK$34.2 million). The Group keeps most of its cash in Hong Kong dollars ("HK$"), Euros ("EURO"), Philippines Pesos ("PHP"), United States dollars ("US$") and Renminbi ("RMB") in bank accounts. The bank borrowings of the Group amounted to HK$36.3 million (2012: HK$14.2 million). The bank borrowings are denominated in HK$, at floating rates and repayable within five years. The gearing ratio, being the total interest bearing debts over the total equity, at 31 December 2013 was 0.36 (2012: 0.18).

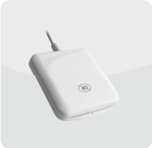
The Group's equity capital, bank borrowings, together with the profit generated from operations, has been applied to fund its working capital and other operational needs. The current ratio, being the ratio of current assets to current liabilities, was 1.95 (2012: 1.90). Net asset value as at the year end date was HK$99.9 million (2012: HK$80.1 million).

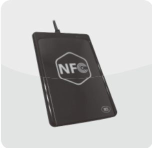
INVESTMENTS

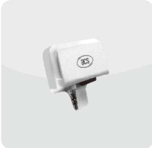
During the year, the Group did not make any significant investments.

ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31 December 2013.







EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

The assets, liabilities and transactions of the Group are primarily denominated in HK$, EURO, PHP, US$ 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 and PHP, the Group considers that currency risk arising from RMB and PHP does not have significant financial impact to the Group as these related to the subsidiaries which operates in Mainland China and the Philippines with most of the transactions denominated and settled in RMB and PHP respectively. 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 2013, the Group did not pledge any of its material assets.

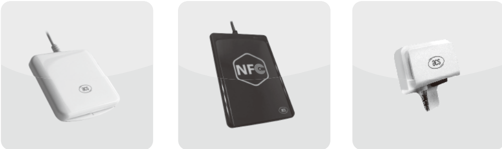
CONTINGENT LIABILITIES

As at 31 December 2013, the Company had outstanding corporate guarantee of HK$74 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.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2013, the Group had 289 full time employees. Staff costs recognised in profit or loss amounted to HK$47.7 million (2012: HK$38.5 million). Remuneration policies and packages for the Group's employees are based on individual qualifications, performance, experience and conditions prevailing in the industry. In addition, various training sessions are offered to employees to enhance their product and market knowledge.

The Group had adopted share option scheme under which the employees of the Group might be granted share options to subscribe for shares in the Company for the purposes of recognising their contributions to the Group. The share option scheme expired on 26 October 2013.



DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. WONG Yiu Chu, Denny

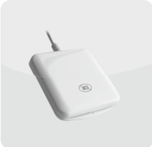
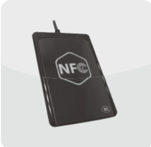
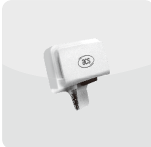
Mr. Denny Wong, aged 66, is the chairman and chief executive officer of the Company and the director of several subsidiaries of the Group. He is also the chairman of the nomination committee and a member of the remuneration committee of the Company. Mr. Wong founded Advanced Card Systems Limited ("ACS") 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 55, 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 61 joined the Group in September 1998 as the Vice President, Operations of ACS and is mainly responsible for supervising the sourcing of raw materials, logistics, human resources and finance. She was appointed as an executive director on 23 March 2005. She is also the director of several subsidiaries of the Group and a member of the nomination committee of the Company. 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LO Kar Chun, Nicky, SBS, JP

Mr. Lo Kar Chun, Nicky, SBS, JP, aged 62, was appointed as an independent non-executive director on 17 March 2014. He is also a member of the audit committee, nomination committee and remuneration committee of the Company. He was awarded a bachelor of science (Hons) degree from the University of Hong Kong and is a top management executive with 40 years of work experience in the private and public sectors among 25 years of which was involved the PRC market. He has extensive experience in business development in the PRC, manufacturing, formulating the executive pay and remuneration, government relations and public sector policy issues. He was also the president and chief executive officer in Synnex Technology International (HK) Ltd. and Synnex Distributions (China) Ltd. from 1987-2013.

Mr. Lo is currently the Chairman of Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System of the Hong Kong Special Administration Region.

Dr. YIP Chak Lam, Peter

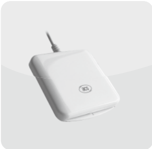
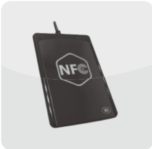
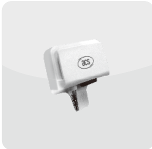
Dr. Peter Yip, aged 63, was appointed as an independent non-executive director on 25 October 2003. He is also the chairman of the remuneration committee and a member of the audit committee and nomination committee of the Company. He was awarded a bachelor of science degree, a masters of philosophy degree 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 63, was appointed as an independent non-executive director on 30 September 2004. He is also the chairman of the audit committee and a member of the nomination committee and remuneration committee of the Company. 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.

Mr. WONG Yick Man, Francis

Mr. Francis Wong, aged 60, was appointed as an independent non-executive director on 1 June 2006. He is also a member of the audit committee and nomination committee of the Company. 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 42, joined the Group in May 1997 and has served the Group as Manager, Total Quality Management since July 2010, responsible for leading the Group for overall quality improvements. From May 1997 to December 2005, Mr. Chu held various engineering positions with the Group. From January 2006 until December 2011, Mr. Chu worked as Engineering Manager, responsible for leading the engineering team in the development of new products and customisation of existing products according to the requirements from the customers, in several smart card reader product lines. During July 2010 to December 2011, Mr. Chu worked as both Engineering Manager and Manager, Total Quality Management. Mr. Chu obtained a bachelor degree in Electrical and Electronic Engineering from The University of Hong Kong in 1993 and a master of science degree in Electronic Commerce (Business) from The Chinese University of Hong Kong in 2003.

Ms. LAI Yuen Yee, Elsie

Ms. Elsie Lai, aged 49, 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 50, 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 38, 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.

Mr. CHAN Ka Chung, Kenneth

Mr. Kenneth Chan, aged 29, is the Finance Manager of the Group. Prior to joining the Group in April 2013, Mr. Chan had worked in the audit division of KPMG Hong Kong. Mr. Chan obtained his bachelor degree in Accounting from The Hong Kong Polytechnic University. He is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants.

CORPORATE GOVERNANCE REPORT

During the year, the Company has applied the Corporate Governance Code (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 22 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 2013.

BOARD OF DIRECTORS

The Board comprises currently 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 4 independent non-executive directors, Mr. Lo Kar Chun, Nicky, SBS, JP, Dr. Yip Chak Lam, Peter, Mr. Yu Man Woon and Mr. Wong Yick Man, Francis. Details of each director are disclosed on page 17 of this Annual Report.

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.

While the Board retains at all times full responsibility for guiding and monitoring the Company, certain responsibilities of the Board are delegated as follows:

(a) Various committees, including audit committee, finance and investment committee, remuneration committee and nomination committee, have been established by the Board to administer certain specified functions of the Company's affairs. The composition and duties of the committees are set out in their terms of reference, which are posted on the websites of the Stock Exchange and the Company.

(b) The day-to-day management, administration and operation of the Group are delegated to the management.

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

The Board held four meetings during the year ended 31 December 2013. 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	
Mr. Wong Yiu Chu, Denny *(Chairman)*	4/4
Mr. Tan Keng Boon	4/4
Ms. Tsui Kam Ling, Alice	4/4
Independent non-executive directors	
Dr. Yip Chak Lam, Peter	4/4
Mr. Yu Man Woon	4/4
Mr. Wong Yick Man, Francis	4/4

During the year ended 31 December 2013, 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.

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.

All directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. All directors have been updated on the latest developments regarding the GEM Listing Rules and other applicable regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices. Continuing briefings and professional development to directors will be arranged whenever necessary.

BOARD OF DIRECTORS *(continued)*

All directors have complied with the code provision A.6.5 of the Code during the year ended 31 December 2013 through participating in continuous professional development in the following manner:

Name of director	Reading materials/ attending seminars in relation to corporate governance and regulatory requirements	Attending seminars/ courses/conferences to develop professional skills and knowledge	Site visit
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	✓	–	–

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 2012 to 31 May 2014.

Mr. Lo Kar Chun, Nicky, SBS, JP, was appointed as a new independent non-executive director on 17 March 2014 for a term of two years commencing from 17 March 2014 to 16 March 2016.

Board Diversity Policy

The Board has adopted a board diversity policy (the "Policy") which sets out the approach to achieve and maintains diversity on the Board in order to enhance the effectiveness of the Board.

Pursuant to the Policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and education background, ethnicity, professional experience, skills knowledge and length of service.

The Board will consider to set measurable objectives to implement the Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives. At present, the Board has not set any measurable objectives.

The Nomination Committee will review the Policy from time to time to ensure its continued effectiveness.

BOARD COMMITTEES

(i) 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 is primarily responsible for making recommendations 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 its resignation or dismissal; to review the Company's financial controls, internal controls and risk management systems; and to review the financial statements of the Company. Other duties of the audit committee are set out in its terms of reference, which are posted on the websites of the Stock Exchange and the Company.

The audit committee comprises 4 members, namely Mr. Yu Man Woon (being the chairman of the audit committee), Dr. Yip Chak Lam, Peter, Mr. Wong Yick Man, Francis and Mr. Lo Kar Chun, Nicky, SBS, JP.

The audit committee held five meetings during the year. Out of these five meetings, the audit committee met twice with the external auditor of which one meeting without executive board members present. Details of individual attendance of its members are set out below:

Name of director	Attended/Eligible to attend
Independent non-executive directors	
Mr. Yu Man Woon *(Chairman)*	5/5
Dr. Yip Chak Lam, Peter	5/5
Mr. Wong Yick Man, Francis	5/5

Set out below is the summary of work performed by the audit committee during the year ended 31 December 2013:

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

(2) to monitor integrity of the Company's financial statements and annual report and accounts, interim report, and quarterly reports, and to review significant financial reporting judgments contained in them;

(3) to review the Company's financial controls, internal controls and risk management systems; and

(4) to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system.

The audit committee met with the external auditor to review the Group's audited results for the year ended 31 December 2013.

BOARD COMMITTEES *(continued)*

(ii) Remuneration Committee

The remuneration committee makes recommendations to the Board on the Company's policy and structure for all directors and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy. 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 payable to the five members of the senior management during the year falls within the following bands:

Nil to HK$1,000,000	4
HK$1,000,001 to HK$1,500,000	1
	5

The remuneration committee comprises 4 members, namely Dr. Yip Chak Lam, Peter (being the chairman of the remuneration committee), Mr. Wong Yiu Chu, Denny, Mr. Yu Man Woon and Mr. Lo Kar Chun, Nicky, SBS, JP.

The remuneration committee held one meeting during the year to determine the specific remuneration 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	
Dr. Yip Chak Lam, Peter *(Chairman)*	1/1
Mr. Yu Man Woon	1/1
Executive director	
Mr. Wong Yiu Chu, Denny	1/1

(iii) Nomination Committee

The nomination committee reviews the structure, size, board diversity and composition of the Board and makes recommendations on any proposed changes to the Board to complement the Company's corporate strategy; identifies individuals suitably qualified to become board members and selects or makes recommendations to the Board on the selection of individuals nominated for directorships; assesses the independence of independent non-executive directors; and makes recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors.

The nomination committee comprises 6 members, namely Mr. Wong Yiu Chu, Denny (being the chairman of the nomination committee), Ms. Tsui Kam Ling, Alice, Mr. Yip Chak Lam, Peter, Mr. Yu Man Woon, Mr. Wong Yick Man, Francis and Mr. Lo Kar Chun, Nicky, SBS, JP.

During the year, the nomination committee held one meeting with the presence of all the then existing members of the nomination committee to review the structure, size, board diversity and composition of the Board, assess the independence of independent non-executive directors and review the re-election of the retiring directors at the annual general meeting. On 17 March 2014, the nomination committee holds a meeting to consider and recommend the appointment of Mr. Lo Kar Chun, Nicky, SBS, JP, as the new independent non-executive director.

BOARD COMMITTEES *(continued)*

(iv) Finance and Investment Committee

The finance and investment committee was set up on 11 November 2013. The finance and investment committee provide executive inputs, supervision and technical/legal oversight and regulatory compliance of the investment functions of the Company; to assist the Board in evaluating investment, acquisition, joint venture and divestiture transaction in which the Company is engaged as part of its business strategy from time to time; and to perform such duties and responsibilities as are enumerated in and consistent with this charter or as delegated by the Board.

The finance and investment committee comprises 5 members, namely Mr. Wong Yiu Chu, Denny (being the chairman of the nomination committee), Ms. Tsui Kam Ling, Alice, Ms. Lai Yuen Yee, Elsie, Mr. Wong Chi Ho and Mr. Chan Ka Chung, Kenneth. During the year ended 31 December 2013, no meeting was held.

(v) Corporate Governance Function

No corporate governance committee has been established. The Board is responsible for performing the corporate governance duties which include developing and reviewing the Company's policies and practices on corporate governance; reviewing and monitoring the training and continuous professional development of directors and senior management; reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements; developing, reviewing and monitoring the code of conduct applicable to employees and directors; and reviewing the Company's compliance with the Code and disclosure in the Corporate Governance Report.

During the year ended 31 December 2013, the Board has reviewed the Company's policies and practices on corporate governance to make sure that the Company has complied with the code provisions of the Code and to explain any deviation from the Code in this Corporate Governance Report. The Board has also reviewed and monitored the training and continuous professional development of directors and senior management.

AUDITOR'S REMUNERATION

For the year ended 31 December 2013, the fee payable to the auditors in respect of audit services amounted to HK$492,000 and there is no fee payable to the auditors in respect of non-audit services.

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 40 to 41 of this Annual Report. There are no material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

INTERNAL CONTROL

The Board is responsible for overseeing the system of internal control of the Group and for reviewing its effectiveness. To facilitate the effectiveness and efficiency of operations and to ensure compliance with relevant laws and regulations, the Group 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, regulations and internal policies. 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 and has considered the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function. The Board is satisfied that, the present system of internal control is effective. The Group does not have an internal audit function and does not see the need to have one.

COMPANY SECRETARY

The Company engages an external service provider to provide secretarial service and has appointed Ms. Lee Ka Man as its Company Secretary. Ms. Lee has confirmed that for the year under review, she has taken no less than 15 hours of relevant professional training. Ms. Lee is not an employee of the Group and Mr. Chan Ka Chung, Kenneth, our Finance Manager, is the person whom Ms. Lee can contact for the purpose of code provision F.1.1 of the Code.

SHAREHOLDERS' RIGHTS

Pursuant to Article 68 of the Articles of Association of the Company, general meetings shall be convened on the written requisition of any two or more members of the Company deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. General meetings may also be convened on the written requisition of any one member of the Company which is a recognized clearing house (or its nominee) deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

SHAREHOLDERS' RIGHTS *(continued)*

However, there is no provision under the Companies Law (2012 Revision) of the Cayman Islands allowing shareholders to propose new resolutions at the general meetings.

Enquiries may be put to the Board by sending written enquiries to the Company's principal place of business in Hong Kong or the designated email addresses of the Company.

Detailed procedures for shareholders to propose a person for election as director are available on the Company's website.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

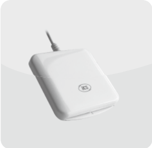
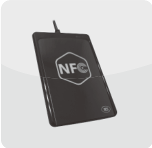
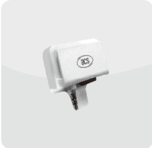
The objective of shareholder communication is to provide our shareholders with detailed information about the Company so that they can exercise their rights as shareholders in an informed manner.

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.

The terms of reference of the audit committee, the remuneration committee and the nomination committee are available on the websites of the Stock Exchange and the Company. There is no significant change in the Company's constitutional documents during the year.

At the 2013 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, remuneration committee and nomination committee attended the 2013 annual general meeting to answer questions of shareholders. No other general meeting was held during 2013. Details of individual attendance of directors at the 2013 annual general meeting is set out below:

Name of director	Attended/Eligible to attend
Executive directors	
Mr. Wong Yiu Chu, Denny *(Chairman)*	1/1
Mr. Tan Keng Boon	1/1
Ms. Tsui Kam Ling, Alice	1/1
Independent non-executive directors	
Dr. Yip Chak Lam, Peter	1/1
Mr. Yu Man Woon	1/1
Mr. Wong Yick Man, Francis	1/1

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 2013.

PRINCIPAL ACTIVITIES

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

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

MAJOR CUSTOMERS AND SUPPLIERS

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

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	15%	–
Five largest customers in aggregate	51%	–
The largest supplier	–	9%
Five largest suppliers in aggregate	–	35%

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 2013 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 42 to 103.

The directors have recommended the payment of a final dividend of HK2 cents (2012: HK1.5 cents) per share for the year ended 31 December 2013. Subject to approval by the shareholders at the forthcoming annual general meeting on 21 May 2014, the final dividend will be paid on 4 June 2014 to shareholders whose names appear on the register of members of the Company on 29 May 2014.

CLOSURE OF REGISTER OF MEMBERS

(i) Entitlement to Attend and Vote at the 2014 Annual General Meeting

The register of members will be closed from Friday, 16 May 2014 to Wednesday, 21 May 2014, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attendance of annual general meeting, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Thursday, 15 May 2014.

(ii) Entitlement to the Proposed Final Dividend

The register of members will be closed from Wednesday, 28 May 2014 to Thursday, 29 May 2014, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Tuesday, 27 May 2014.

RESERVES

Profit for the year of HK$23,203,000 (2012: HK$16,874,000) 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 the consolidated statement of charges in equity on page 47-48 and note 29 to the financial statements.

PLANT AND EQUIPMENT

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

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in share capital and share options of the Company during the year are set out in notes 27 and 28 to the financial statements respectively.

REPORT OF THE DIRECTORS

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
Mr. Lo Kar Chun, Nicky, SBS, JP, (appointed on 17 March 2014)
Dr. Yip Chak Lam, Peter
Mr. Yu Man Woon
Mr. Wong Yick Man, Francis

In accordance with Article 95 of the Company's Articles of Association, Mr. Lo Kar Chun, Nicky, SBS, JP, will retire at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

In accordance with Article 112 of the Company's Articles of Association, Ms. Tsui Kam Ling, Alice, Dr. Yip Chak Lam, Peter and Mr. Tan Keng Boon will retire by rotation at the forthcoming annual general meeting. Except Dr. Yip Chak Lam, Peter who does not offer himself for re-election due to his wish to make way for new impetus be introduced into the board at this juncture of the Group's development and will retire at the forthcoming annual general meeting, Ms. Tsui Kam Ling, Alice and Mr. Tan Keng Boon will, 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 2012 to 26 October 2014. 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 2012 to 31 May 2014.

Mr. Lo Kar Chun, Nicky, SBS, JP, was appointed by the board of directors as the independent non-executive director for a term of two years commencing from 17 March 2014 to 16 March 2016.

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 2013, 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 2013
Mr. Wong Yiu Chu, Denny (Note 2)	80,768,000	55,738,522	–	–	136,506,522	48.06%
Ms. Tsui Kam Ling, Alice (Note 3)	55,738,522	80,768,000	–	–	136,506,522	48.06%
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 55,738,522 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 55,738,522 shares are held by Ms. Tsui Kam Ling, Alice personally and 80,768,000 shares are held by her husband, Mr. Wong Yiu Chu, Denny personally. Ms. Tsui Kam Ling, Alice is taken to be interested in the shares held by Mr. Wong Yiu Chu, Denny under the SFO.

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

Save as disclosed above, to the best knowledge of the directors of the Company, as at 31 December 2013, 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 2.30% of the issued share capital as at 17 March 2014.

(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.

SHARE OPTION SCHEMES *(continued)*

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

(e) Payment on acceptance of the option offer

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

(f) Basis of determining the exercise price

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

(g) Remaining life of the Plan

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

As at 31 December 2013, the employees of the Group had the following interests in options to subscribe for shares of the Company (market value per share at 31 December 2013 was HK$0.77) 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 2013	Granted during the year	Exercised during the year	Lapsed during the year	Balance as at 31 December 2013	Period during which the options are exercisable	Exercise price per share	Percentage of the Company's issued share capital as at 31 December 2013
Employees	27 October 2003	4,259	–	–	4,259 (Note 1)	–	10 May 2004 to 20 January 2013	HK$0.24	–
		4,259	–	–	4,259	–			

Notes:

1 The options lapsed upon the expiry of the options on 20 January 2013.

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

SHARE OPTION SCHEMES *(continued)*

(ii) Share Option Scheme

Pursuant to the resolution of the shareholders of the Company dated 27 October 2003, the Company adopted a Share Option Scheme (the "Scheme"). As at the date of this report, no options had been granted under the Scheme and the Scheme was expired on 26 October 2013. Principal terms of the Scheme are as follows:

(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 subparagraph (2) below (i.e. total 28,000,000 shares, which represents approximately 9.86% of the issued share capital as at 17 March 2014). Options lapsed in accordance with the terms of the Scheme shall not be counted for the purpose of calculating the Scheme Mandate Limit.

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

SHARE OPTION SCHEMES *(continued)*

(ii) Share Option Scheme *(continued)*

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

(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.

(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.

SHARE OPTION SCHEMES *(continued)*

(ii) Share Option Scheme *(continued)*

(g) Basis of determining the exercise price

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

(h) Remaining life of the Scheme

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the paragraphs headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" and "Share option schemes" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them, or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

In addition to the interests disclosed under the section "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, the Company has been notified of the following interests in the Company's issued shares as at 31 December 2013 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 2013
Mr. Tjio Kay Loen (Note 2)	Beneficial owner and Other	19,720,000 shares (L)	6.94%
Warren Securities Limited	Beneficial owner	14,720,000 shares (L)	5.18%

Notes:

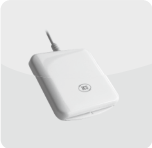
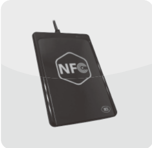
1 The letter "L" stands for the shareholders' long position (within the meaning stated in the form for notification specified pursuant to the SFO) in shares.

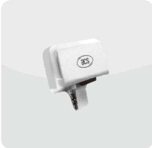
2 Of these shares, 5,000,000 shares are held by Mr. Tjio Kay Loen personally, 14,720,000 shares are held by Warren Securities Limited (a company which is owned as to 30% by Mr. Tjio Kay Loen). Mr. Tjio Kay Loen is taken to be interested in these shares under the SFO.

Save as disclosed above, as at 31 December 2013 and to the best knowledge of the directors, there was no person (other than the directors and chief executive of the Company whose interests are set out in the paragraph "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above) had an interest or short position in the shares or underlying shares of the Company as recorded in the register to be kept under Section 336 of the SFO.

DIRECTORS' INTERESTS IN CONTRACTS

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



DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

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

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

PRE-EMPTIVE RIGHTS

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

BANK LOANS AND OTHER BORROWINGS

The Company and its subsidiaries obtained banking facilities during the year. The bank borrowings as at the year end amounted to HK$36.3 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 104 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 had adopted the Share Option Schemes under which the directors and employees of the Group might be granted share options to subscribe for shares in the Company for the purposes of recognising their contributions to the Group. The Share Option Scheme was expired on 26 October 2013.

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.

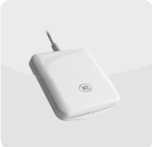
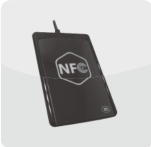
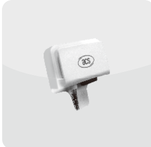
AUDITOR

The consolidated financial statements for the year ended 31 December 2013 have been audited by BDO Limited ("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, 17 March 2014

INDEPENDENT AUDITOR'S REPORT

Tel : +852 2541 5041
Fax: +852 2815 2239
www.bdo.com.hk

電話：+852 2541 5041
傳真：+852 2815 2239
www.bdo.com.hk

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

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 42 to 103, which comprise the consolidated and company statements of financial position as at 31 December 2013, 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.

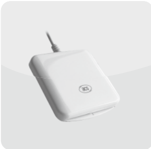
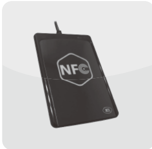
DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

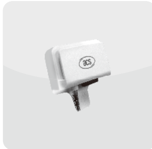
The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong 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.



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

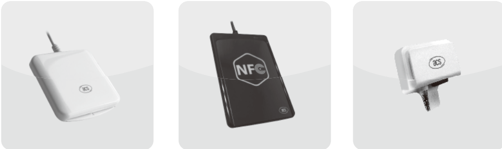
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, 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, 17 March 2014



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Notes	2013	2012
		HK$'000	*HK$'000*
Revenue	6	**194,360**	160,855
Cost of sales and services provided		**(81,340)**	(74,009)
Gross profit		**113,020**	86,846
Other income and gains	7	**975**	269
Selling and distribution costs		**(19,218)**	(13,325)
Research and development expenses		**(32,498)**	(22,240)
Administrative expenses		**(34,292)**	(29,755)
Finance costs	8	**(759)**	(352)
Profit before income tax	9	**27,228**	21,443
Income tax expense	10	**(4,025)**	(4,569)
Profit for the year, attributable to owners of the Company		**23,203**	16,874
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss			
– Exchange gain on translation of financial statements of foreign operations		**820**	251
Item that will not be reclassified subsequently to profit or loss			
– Remeasurement of defined benefit obligations		**63**	(232)
– Income tax relating to defined benefit obligations		**48**	–
Other comprehensive income for the year, net of tax		**931**	19
Total comprehensive income for the year, attributable to owners of the Company		**24,134**	16,893
Earnings per share for profit attributable to owners of the Company for the year	13		
– Basic (HK cents)		**8.168**	5.954
– Diluted (HK cents)		**8.168**	5.948

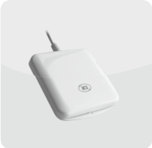
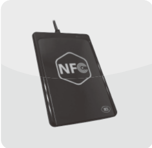
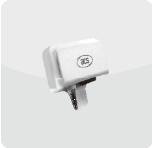
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Notes	2013 *HK$'000*	2012 *HK$'000*
ASSETS AND LIABILITIES			
Non-current assets			
Plant and equipment	16	**7,238**	9,578
Development costs	18	**32,260**	29,311
Deferred tax assets	25	**593**	–
		40,091	38,889
Current assets			
Inventories	19	**44,094**	34,766
Trade and other receivables, prepayments and deposits paid	20	**31,784**	19,948
Held-to-maturity financial assets	21	**71**	38
Cash and cash equivalents	22	**48,614**	34,223
		124,563	88,975
Current liabilities			
Trade payables, accruals and deposits received	23	**26,566**	29,075
Bank borrowings, secured	24	**36,341**	14,218
Current tax liabilities		**1,028**	3,465
		63,935	46,758
Net current assets		**60,628**	42,217
Total assets less current liabilities		**100,719**	81,106
Non-current liabilities			
Deferred tax liabilities	25	**511**	729
Defined benefit obligations	26	**261**	303
		772	1,032
Net assets		**99,947**	80,074
EQUITY ATTRIBUTABLE TO COMPANY'S OWNERS			
Share capital	27	**28,406**	28,406
Reserves	29	**71,541**	51,668
Total equity		**99,947**	80,074

On behalf of the Board

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

STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Notes	2013	2012
		HK$'000	*HK$'000*
ASSETS AND LIABILITIES			
Non-current assets			
Investments in subsidiaries	17	**14,004**	14,004
Current assets			
Amount due from a subsidiary	17	**42,741**	38,967
Prepayments	20	**202**	165
Cash and cash equivalents	22	**284**	359
		43,227	39,491
Current liabilities			
Accruals	23	**283**	257
Net current assets		**42,944**	39,234
Net assets/Total assets less current liabilities		**56,948**	53,238
EQUITY			
Share capital	27	**28,406**	28,406
Reserves	29	**28,542**	24,832
Total equity		**56,948**	53,238

On behalf of the Board

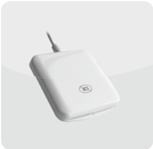
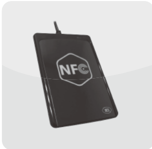
WONG Yiu Chu, Denny
Chairman

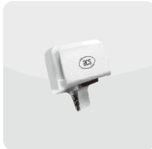
TSUI Kam Ling, Alice
Director

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Notes	2013 *HK$'000*	2012 *HK$'000*
Cash flows from operating activities			
Profit before income tax		**27,228**	21,443
Adjustments for:			
Amortisation of development costs	9	**8,237**	3,967
Depreciation of plant and equipment	9	**4,804**	4,551
Finance costs	8	**759**	352
Impairment losses on trade receivables	9	**2**	239
Impairment losses on other receivables	9	**66**	–
Interest income	7	**(419)**	(68)
Net loss on disposals of plant and equipment	9	**211**	1
Write-down of inventories	9	**1,087**	731
Operating profit before working capital changes		**41,975**	31,216
(Increase)/Decrease in inventories		**(10,410)**	1,386
Increase in trade and other receivables, prepayments and deposits paid		**(11,990)**	(3,064)
Decrease in trade payables, accruals and deposits received		**(1,310)**	(6,088)
Increase in defined benefit obligations		**86**	71
Cash generated from operations		**18,351**	23,521
Income tax paid		**(7,273)**	(1,985)
Net cash generated from operating activities		**11,078**	21,536
Cash flows from investing activities			
Purchases of plant and equipment		**(2,662)**	(4,374)
Purchases of held-to-maturity financial assets		**(35)**	(2)
Proceeds from disposals of plant and equipment		**17**	–
Expenditure on development projects capitalised	18	**(11,186)**	(11,137)
Interest received		**352**	23
Net cash used in investing activities		**(13,514)**	(15,490)

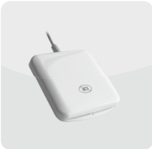
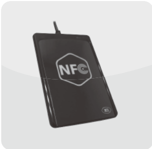
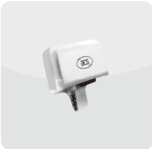





CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Notes	2013	2012
		HK$'000	*HK$'000*
Cash flows from financing activities			
Proceeds from shares issued upon exercise of share options		–	216
Dividend paid		(4,261)	–
Proceeds from new borrowings		30,000	10,000
Repayments of borrowings		(7,877)	(4,067)
Finance costs paid		(759)	(352)
Net cash generated from financing activities		17,103	5,797
Net increase in cash and cash equivalents		14,667	11,843
Cash and cash equivalents as at 1 January		34,223	22,267
Effect of foreign exchange rate changes, on cash held		(276)	113
Cash and cash equivalents as at 31 December	22	48,614	34,223

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

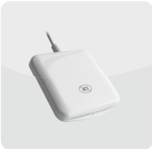
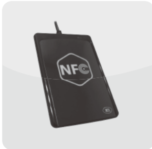
	Attributable to owners of the Company						
	Share capital	Share premium*	Merger reserve*	Translation reserve*	Retained profits*	Proposed dividend*	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(note 27)	(note 29)	(note 29)				
Balance as at 1 January 2012	28,316	17,829	4,496	635	11,689	–	62,965
Issue of shares upon exercise of share options	90	126	–	–	–	–	216
Transactions with owners	90	126	–	–	–	–	216
Profit for the year	–	–	–	–	16,874	–	16,874
Other comprehensive income							
– Exchange gain on translation of financial statements of foreign operations	–	–	–	251	–	–	251
– Remeasurement of defined benefit obligations	–	–	–	–	(232)	–	(232)
	–	–	–	251	(232)	–	19
Total comprehensive income for the year	–	–	–	251	16,642	–	16,893
2012 final dividend proposed (note 12)	–	–	–	–	(4,261)	4,261	–
Balance as at 31 December 2012 and 1 January 2013	28,406	17,955	4,496	886	24,070	4,261	80,074
Dividend approved in respect of previous year	–	–	–	–	–	(4,261)	(4,261)
Transactions with owners	–	–	–	–	–	(4,261)	(4,261)

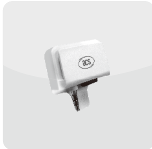
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Attributable to owners of the Company						
	Share capital *HK$'000* (note 27)	Share premium* *HK$'000* (note 29)	Merger reserve* *HK$'000* (note 29)	Translation reserve* *HK$'000*	Retained profits* *HK$'000*	Proposed dividend* *HK$'000*	Total *HK$'000*
Profit for the year	–	–	–	–	23,203	–	23,203
Other comprehensive income							
– Exchange gain on translation of financial statements of foreign operations	–	–	–	820	–	–	820
– Remeasurement of defined benefit obligations	–	–	–	–	63	–	63
– Income tax relating to defined benefit obligations	–	–	–	–	48	–	48
	–	–	–	820	111	–	931
Total comprehensive income for the year	–	–	–	820	23,314	–	24,134
2013 final dividend proposed (note 12)	–	–	–	–	(5,681)	5,681	–
Balance as at 31 December 2013	**28,406**	**17,955**	**4,496**	**1,706**	**41,703**	**5,681**	**99,947**

* These reserve accounts comprise the consolidated reserves of HK$71,541,000 (2012: HK$51,668,000) in the consolidated statement of financial position as at 31 December 2013.



NOTES TO THE FINANCIAL STATEMENTS

31 December 2013

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 activity 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements on pages 42 to 103 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") 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 impact on the Group's financial statements, if any, are disclosed in note 3.

The financial statements have been prepared on the historical cost basis. The measurement bases are fully described in the accounting policies below.

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

2.1 Basis of preparation *(continued)*

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

2.2 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 controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights, i.e. the holder has the practical ability to exercise them (held by the Group and other parties) are considered.

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.

2.4 Foreign currency translation

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

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

2.4 Foreign currency translation *(continued)*

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into HK$. Assets and liabilities have been translated into HK$ at the closing 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 disposed such that control is lost, the cumulative exchange differences relating to that foreign operation accumulated in translation reserve are reclassified from equity to profit or loss as part of the gain or loss on disposal.

2.5 Plant and equipment

Plant and equipment are carried at cost less accumulated depreciation and any 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 of the financial period 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%

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

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss arising on retirement or disposal is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset and is recognised in profit or loss.

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

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 expenditure 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 appropriate, at each reporting date.

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

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

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 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.

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, and only 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

– granting concession to a debtor because of the debtor's financial difficulty.

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

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

2.7 Financial assets *(continued)*

If 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 the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the financial period in which the impairment occurs.

If, in a 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 the financial period 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 calculated using weighted average cost formula and comprises all costs of purchase, cost of conversion and other costs 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 costs of completion and the estimated cost necessary to make the sale.

When 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 are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

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

2.9 Cash and cash equivalents

Cash and cash equivalents comprise cash on 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 to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.10 Financial liabilities

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

Financial liabilities are recognised when, and only 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, and only when, the obligation under the financial liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender with substantially different terms, or the terms of an existing financial liability are substantially modified, such an exchange or modification is treated as derecognition of the original financial liability and the recognition of a new financial 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 directly attributable 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 the 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 the effective interest method.

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

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.

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 right to use of assets held under operating leases, payments made under the leases are charged to profit or loss on straight-line basis 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 expenditures expected to be required 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 present obligation is disclosed as a contingent liability, unless the possibility of outflow of economic benefits is remote. Possible obligations that arise from past events, whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group, are also disclosed as contingent liabilities unless the possibility of an outflow of economic benefits is remote.

2.14 Share capital and share premium

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

Share premium includes any premiums received on the issue of share capital. Any transaction costs associated with the issuing of shares are accounted for as a deduction from share premium to the extent that 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) Sales 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;

(c) For bundled transactions under contract comprising of provision of services and goods; the amount of revenue recognised upon the sale of goods is accrued as determined by considering the estimated fair value of each of the elements under the contract; and

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

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

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 its fair value, reflecting market conditions, less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset for which the future cash flow estimates have not been adjusted.

For the purpose of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit ("CGU")). As a result, some assets are tested individually for impairment and some are tested at CGU level. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

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 loss 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 costs 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. Reversal of impairment loss is credited to profit or loss of the financial period in which the reversals occurs.

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

2.17 Employee benefits

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.

Defined contribution retirement 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)*

Defined benefit retirement plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; and that benefit is discounted to determine its present value. The fair value of any plan assets is then deducted from the benefit. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset).

The discount rate is the market yield at the reporting date on high-quality corporate bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contribution to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

Remeasurement arising from defined benefit plans comprises the actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Group recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expense in profit or loss. Remeasurement recorded in other comprehensive income is not recycled, however, those amounts recognised in other comprehensive income may be transferred within equity.

When the benefits of a plan are changed (including introduction or withdrawal), or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in profit or loss when the plan amendment or curtailment occurs.

The Group recognises gains and losses on settlement of a defined benefit plan when the settlement occurs. The gain or loss on a settlement is the difference between the present value of the defined benefit obligation being settled as determined on the date of settlement and the settlement price, including any plan assets transferred and any payments made directly by the Group in connection with the settlement.

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

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.

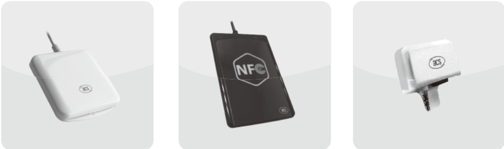
Upon the exercise of the share options, the resulting shares issued are recorded as additional share capital at the nominal value of shares, and the excess or deficit of the exercise price per share over the nominal value of shares is recorded as part of the share premium. Options which lapse or are 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 services received in exchange for the grant of these share-based compensations are measured at their fair value. These are indirectly determined by reference to the fair value of the equity instruments awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

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

At the time when the share options are exercised, the amount previously recognised in share option reserve 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.19 Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised as part of the cost of that asset 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 taxes

Income taxes 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 differences arise 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.

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

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

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

2.20 Accounting for income taxes *(continued)*

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 a 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 Group has a legally enforceable right to set off current tax assets against current tax liabilities; and (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either (i) the same taxable entity; or (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.21 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 expense 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 resources allocation and assessment of segment performance.

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

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 venture 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 ventures of the same third party;

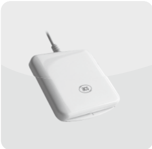
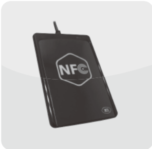
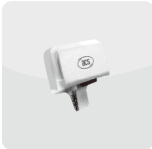
(d) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(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) dependants of that person or that person's spouse or domestic partner.

3. ADOPTION OF NEW OR AMENDED HKFRSs

3.1 New or amended HKFRSs effective for annual period beginning on or after 1 January 2013

In the current year, the Group has applied the 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 2013, other than HKAS 19 (2011), Employee Benefits that had been early adopted for the year ended 31 December 2012. Except as explained below, the adoption of the new HKFRSs that are effective for the year had no material impact on the Group's financial statements.

Amendments to HKAS 1 (Revised), Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 (Revised) require entities to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met separately from those that would never be reclassified to profit or loss. The Group's presentation of other comprehensive income in these financial statements has been modified accordingly. The comparative information has been restated to comply with the amendments. As the amendments affect presentation only, there are no effects on the Group's financial position or performance.

HKFRS 10, Consolidated Financial Statements

HKFRS 10 replaces the requirements in HKAS 27 "Consolidated and Separate Financial Statements" relating to the preparation of consolidated financial statements and HK(SIC)-Int 12 "Consolidation – Special Purpose Entities". It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

HKFRS 12, Disclosure of Interests in Other Entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in note 17.

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

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

At the date of authorisation of these financial statements, certain new or amended HKFRSs have been issued but are not yet effective. The directors of the Company anticipate that these 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 have not been adopted early by the Group but expected to have impact on the Group's accounting policies is provided below. Other new or amended HKFRSs have been issued but are not yet effective and not adopted in advance are not expected to have a material impact on the Group's financial statements.

HKFRS 9, Financial Instruments

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

The directors are currently assessing the possible impact of the above pronouncement that have not been adopted early by the Group but are not yet in a position to state whether they would have material financial impact on the Group's financial statements.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

(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.

(vi) Allocation of revenue for bundled transactions with customers

The Group has bundled transactions under contract with customers including sales of both services and hardware. The amount of revenue recognised upon the sale of hardware is determined by considering the estimated fair value of each of the service element and hardware element of the contract. Significant judgement is required in assessing the fair value of both of these elements by considering, among others, standalone selling price and other observable market data. Changes in the estimated fair value may cause the revenue recognised for sales of services and hardware to change individually but not the total bundled revenue from a specific customer throughout its contract term. The Group periodically reassesses the fair value of the elements as a result of changes in market conditions.

(vii) Current tax and deferred tax

The Group is mainly subjected to income tax in Hong Kong and the Republic of Philippines. Significant judgement is required in determining the amount of the provision and the timing of payment. There are many transactions and calculations for which the ultimate tax expense is uncertain during the ordinary course of business. The Group recognises taxes based on estimates of the likely outcome with reference to current tax laws and practices. Where the final outcome of these matters is different from the amounts that were originally estimated, such differences will impact the provision for income tax and deferred tax in the period in which such determination is made.

Deferred tax assets relating to certain deductible temporary differences and tax losses will be recognised when management considers it is probable that future taxable profit will be available against which the deductible temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and income tax expense in the period in which such estimate is changed.

(viii) Defined benefit obligations

The Group's net obligations in respect of defined benefit retirement plans are calculated by estimating the amount of future pension benefits to existing pensioners. Those benefits are discounted to determine the present value and the fair value of any plan assets is deducted. The calculations are performed by a qualified actuary using the projected unit credit method.

The actuaries use assumptions and estimates in determining the fair value of the defined benefit plans. Judgement is required to determine principal actuarial assumptions to determine the present value of defined benefit obligations and service costs. Changes to the principal actuarial assumptions can significantly affect the present value of plan obligations and services costs in future periods.

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.

	2013 *HK$'000*	2012 *HK$'000*
Revenue from external customers and reportable segment revenue	194,360	160,855
Reportable segment profit	28,257	22,470
Unallocated corporate expenses	(1,029)	(1,027)
Consolidated profit before income tax	27,228	21,443
Reportable segment assets	163,859	127,699
Deferred tax assets	593	–
Unallocated corporate assets	202	165
Consolidated assets	164,654	127,864
Reportable segment liabilities	62,885	43,339
Current tax liabilities	1,028	3,465
Deferred tax liabilities	511	729
Unallocated corporate liabilities	283	257
Consolidated liabilities	64,707	47,790
Other segment information		
Depreciation and amortisation of non-financial assets*	13,041	8,518
Impairment losses on trade receivables	2	239
Impairment losses on other receivables	66	–
Interest expense	759	352
Interest income	(419)	(68)
Research and development expenses*	32,498	22,240
Write-down of inventories	1,087	731
Additions to non-current assets	13,848	15,511

* Included in research and development expenses is amortisation of development costs of HK$8,237,000 (2012: HK$3,967,000), which has also been included in the depreciation and amortisation of non-financial assets as disclosed above.

5. SEGMENT INFORMATION *(continued)*

The following table set out information about the geographical location of (i) the Group's customers and (ii) the Group's plant and equipment and development costs ("specified non-current assets"). Geographical location of customers is based on the location at which the customers are resided. Geographical location of specified non-current assets is based on the physical location of the assets, 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 specified non-current assets is divided into the following geographical areas:

	Revenue from external customers		Specified non-current assets	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
PRC, including Hong Kong and Macau (domicile)#	**24,893**	18,096	**37,494**	36,692
Foreign countries				
– United States	**35,920**	40,638	**46**	7
– Italy	**29,222**	23,882	**–**	–
– Republic of the Philippines	**27,155**	1,700	**619**	395
– Other countries	**77,170**	76,539	**1,339**	1,795
	169,467	142,759	**2,004**	2,197
	194,360	160,855	**39,498**	38,889

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, including Hong Kong, 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 2013 and 2012, revenue derived from these customers, including sales to entities which are known to the Group to be under common control, are as follows:

	2013	2012
	HK$'000	*HK$'000*
Customer A*	**29,206**	23,876
Customer B*	**1,740**	1,306
Customer C	**29,093**	34,052
Customer D	**26,388**	–

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

6. REVENUE

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

	2013	2012
	HK$'000	*HK$'000*
Sale of smart card products, software and hardware	194,124	157,663
Smart card related services	236	3,192
	194,360	160,855

7. OTHER INCOME AND GAINS

	2013	2012
	HK$'000	*HK$'000*
Interest income on financial assets not at fair value through profit or loss	419	68
Sundry income	556	201
	975	269

8. FINANCE COSTS

	2013	2012
	HK$'000	*HK$'000*
Interest charges on bank borrowings, repayable on demand or wholly within five years	759	352

9. PROFIT BEFORE INCOME TAX

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

	2013	2012
	HK$'000	*HK$'000*
Amortisation of development costs*	**8,237**	3,967
Auditors' remuneration	**492**	408
Cost of inventories recognised as expense, including:	**80,667**	72,596
– Write-down of inventories	**1,087**	731
Depreciation of plant and equipment	**4,804**	4,551
Impairment losses on trade receivables	**2**	239
Impairment losses on other receivables	**66**	–
Minimum lease payments	**4,108**	3,585
Less: Amount capitalised into development costs	**(140)**	(148)
Amount recognised in profit or loss	**3,968**	3,437
Net foreign exchange loss	**1,411**	1,211
Net loss on disposals of plant and equipment	**211**	1

* Included in research and development expenses in profit or loss

10. INCOME TAX EXPENSE

Income tax recognised in profit or loss

	2013	2012
	HK$'000	*HK$'000*
Current tax		
Hong Kong profits tax		
– Provision for current year	3,865	4,740
– Over-provision in respect of prior years	–	(8)
	3,865	4,732
Philippines Income Tax		
– Provision for current year	722	141
– Under/(Over) provision in respect of prior years	5	(133)
	727	8
Other overseas tax	196	–
	4,788	4,740
Deferred tax (note 25)	(763)	(171)
	4,025	4,569

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits for the year.

Philippines Income Tax has been provided at 30% (2012: 30%) on the estimated taxable income or 2% (2012: 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.

Tax on other jurisdictions including PRC has been provided on the estimated assessable profits, if any, for the year at the rates of tax prevailing in the countries in which the Group operates. PRC corporate income tax for the year has been provided at the rate of 25% (2012: 25%) on the estimated assessable profits arising in the PRC for the year.

10. INCOME TAX EXPENSE *(continued)*

Income tax recognised in profit or loss *(continued)*

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

	2013	2012
	HK$'000	*HK$'000*
Profit before income tax	**27,228**	21,443
Notional tax at the applicable tax rates	**4,488**	3,793
Tax effect of non-deductible expenses	**262**	229
Tax effect of non-taxable revenue	**(69)**	(90)
Tax effect of unused tax loss not recognised	**16**	1,415
Tax effect of prior years' unrecognised tax losses utilised this year	**(1,108)**	(665)
Tax effect of temporary differences not recognised	**436**	101
Under/(Over) provision in respect of prior years	**5**	(141)
Other differences	**(5)**	(73)
Income tax expense	**4,025**	4,569

Income tax recognised in other comprehensive income

	2013	2012
	HK$'000	*HK$'000*
Deferred tax (note 25)	**(48)**	–
	(48)	–

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Of the consolidated profit attributable to the owners of the Company of HK$23,203,000 (2012: HK$16,874,000), a profit of HK$7,971,000 (2012: HK$16,972,000) has been dealt with in the financial statements of the Company.

12. DIVIDENDS

Dividends attributable to the year:

	2013	2012
	HK$'000	*HK$'000*
Proposed final dividend of HK2.0 cents (2012: HK1.5 cents) per ordinary share	5,681	4,261

The final dividend proposed after the reporting date has not been recognised as a liability at the reporting date.

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

	2013	2012
	HK$'000	*HK$'000*
Final dividend in respect of the previous year, approved and paid during the year of HK1.5 cents (2012: Nil) per ordinary share	4,261	–

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on profit attributable to owners of the Company of HK$23,203,000 (2012: HK$16,874,000) and weighted average of 284,058,000 (2012: 283,411,000) 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$23,203,000 (2012: HK$16,874,000) and the weighted average of 284,059,000 (2012: 283,680,000) 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 284,058,000 (2012: 283,411,000) ordinary shares in issue during the year as used in the calculation of basic earnings per share plus the weighted average of 1,000 (2012: 269,000) 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)

	2013 *HK$'000*	2012 *HK$'000*
Wages and salaries	**54,745**	46,032
Contribution to defined contribution retirement plans	**2,558**	1,942
Expenses recognised in respect of defined benefit retirement plan (note 26)	**112**	298
Total employee benefit expense	**57,415**	48,272
Less: Amount capitalised into development costs	**(9,670)**	(9,733)
Amount recognised in profit or loss	**47,745**	38,539

15. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

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 (2012: Nil).

(a) Directors' emoluments

	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*
2013					
Executive directors					
– Mr. Wong Yiu Chu, Denny	–	1,710	214	–	1,924
– Mr. Tan Keng Boon	–	998	124	15	1,137
– Ms. Tsui Kam Ling, Alice	–	1,014	127	15	1,156
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	3,722	465	30	4,577

15. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS *(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*
2012					
Executive directors					
– Mr. Wong Yiu Chu, Denny	–	1,639	70	11	1,720
– Mr. Tan Keng Boon	–	949	100	14	1,063
– Ms. Tsui Kam Ling, Alice	–	870	100	14	984
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	3,458	270	39	4,127

* discretionary bonus is determined by reference to the consolidated profit for the year attributable to owners of the Company

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included three (2012: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2012: two) individuals during the year are as follows:

	2013 *HK$'000*	2012 *HK$'000*
Salaries and other emoluments	**1,526**	1,200
Discretionary bonuses	**443**	425
Retirement scheme contributions	**30**	28
	1,999	1,653

The emoluments of these remaining two (2012: two) highest paid individuals fell within the following bands:

	2013	2012
Nil to HK$1,000,000	**1**	1
HK$1,000,001 to HK$1,500,000	**1**	1
	2	2

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 2012					
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
Year ended 31 December 2012					
Opening net carrying amount	327	299	5,409	3,684	9,719
Additions	781	135	2,476	982	4,374
Disposals	–	(1)	–	–	(1)
Depreciation	(403)	(163)	(2,331)	(1,654)	(4,551)
Exchange difference	12	2	23	–	37
Closing net carrying amount	717	272	5,577	3,012	9,578
At 31 December 2012					
Cost	2,608	1,333	14,707	9,004	27,652
Accumulated depreciation	(1,891)	(1,061)	(9,130)	(5,992)	(18,074)
Net carrying amount	717	272	5,577	3,012	9,578
Year ended 31 December 2013					
Opening net carrying amount	717	272	5,577	3,012	9,578
Additions	144	193	1,680	645	2,662
Disposals	–	(1)	(227)	–	(228)
Depreciation	(594)	(167)	(2,535)	(1,508)	(4,804)
Exchange difference	7	1	22	–	30
Closing net carrying amount	274	298	4,517	2,149	7,238
At 31 December 2013					
Cost	2,809	1,554	15,915	9,649	29,927
Accumulated depreciation	(2,535)	(1,256)	(11,398)	(7,500)	(22,689)
Net carrying amount	274	298	4,517	2,149	7,238

17. INTERESTS IN SUBSIDIARIES – COMPANY

	2013 HK$'000	2012 HK$'000
Unlisted investments, at cost	**14,004**	14,004
Amount due from a subsidiary	**42,741**	38,967

Amount due from a subsidiary is non-interest bearing, unsecured and repayable on demand.

Particulars of the principal subsidiaries as at 31 December 2013 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 Directly	Indirectly	Principal activities and place of operations
Advanced Card Systems Limited	Hong Kong, limited liability company	18,000,000 ordinary shares of HK$1 each	100	–	Development, 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 share of CAD1	–	100	Sales and distribution of smart card products, software and hardware and the provision of smart card related services in Canada
Advanced Card Systems Japan Limited*^	Japan, limited liability company	100 ordinary shares of JPY1,000 each	–	100	Sales and distribution of smart card products, software and hardware and the provision of smart card related services in Japan
ACS Technologies Limited	Hong Kong, limited liability company	1 ordinary share of HK$1	100	–	Developers, sales and distribution of smart card products, software and hardware and the provision of smart card related services in the Republic of Philippines

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

Particulars of the principal subsidiaries as at 31 December 2013 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		Principal activities and place of operations
			Directly	Indirectly	
ACS Technologies (Shenzhen) Limited*	PRC, wholly foreign owned enterprise	Registered capital of HK$14,000,000	–	100	Development, sales and distribution of smart card products, software and hardware and the provision of smart card related services in the PRC
Logyi Limited*	PRC, wholly foreign owned enterprise	Registered capital of 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 the Republic of 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

^ newly established during the year

18. DEVELOPMENT COSTS – GROUP

	2013 *HK$'000*	2012 *HK$'000*
At 1 January		
Gross carrying amount	**56,866**	45,729
Accumulated amortisation and impairment losses	**(27,555)**	(23,588)
Net carrying amount	**29,311**	22,141
Year ended 31 December		
Net carrying amount at 1 January	**29,311**	22,141
Capitalised during the year	**11,186**	11,137
Amortisation charge	**(8,237)**	(3,967)
Net carrying amount at 31 December	**32,260**	29,311
At 31 December		
Gross carrying amount	**68,052**	56,866
Accumulated amortisation and impairment losses	**(35,792)**	(27,555)
Net carrying amount	**32,260**	29,311

19. INVENTORIES – GROUP

	2013 *HK$'000*	2012 *HK$'000*
Raw materials	**25,664**	18,602
Work-in-progress	**1,346**	519
Finished goods	**17,084**	15,645
	44,094	34,766

20. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS PAID

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade receivables	**27,571**	15,770	**–**	–
Less: Provision for impairment losses	**(239)**	(239)	**–**	–
Trade receivables – net	**27,332**	15,531	**–**	–
Other receivables	**1,240**	1,956	**–**	–
Prepayments	**1,950**	1,347	**202**	165
Deposits paid	**1,328**	1,114	**–**	–
Less: Provision for impairment losses	**(66)**	–	**–**	–
	31,784	19,948	**202**	165

Customers are generally granted credit terms of 7 to 100 (2012: 7 to 100) days. Based on invoice date, ageing analysis of the Group's trade receivables (net of provision for impairment losses) is as follows:

	2013	2012
	HK$'000	*HK$'000*
0 – 30 days	**15,437**	10,363
31 – 60 days	**2,943**	2,908
61 – 90 days	**26**	625
91 – 365 days	**7,022**	438
Over 365 days	**1,904**	1,197
	27,332	15,531

At each reporting date, the Group reviewed receivables for evidence of impairment on both an individual and collective basis. As at 31 December 2013, the Group determined trade receivables of HK$239,000 (2012: HK$239,000) and other receivables of HK$66,000 (2012: Nil) as individually impaired. Based on this assessment, impairment losses of HK$2,000 (2012: HK$239,000) are recognised for trade receivables and HK$66,000 (2012: Nil) are recognised for other receivables for the year ended 31 December 2013. The impaired trade and other receivables are due from customers and other debtors experiencing financial difficulties that were in default or delinquency of payments or have been past due for more than one year and have not responded to repayment demands.

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

Movements in the Group's provision for impairment losses of trade and other receivables are as follows:

	Trade receivables		Other receivables	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
At 1 January	**239**	–	**–**	–
Impairment losses recognised	**2**	239	**66**	–
Amount written off	**(2)**	–	**–**	–
At 31 December	**239**	239	**66**	–

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

	2013	2012
	HK$'000	*HK$'000*
Not yet past due	**15,212**	11,115
1 – 90 days past due	**9,682**	2,797
91 – 180 days past due	**171**	425
181 – 365 days past due	**391**	404
Past due more than 365 days	**1,876**	790
	27,332	15,531

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 a number of customers that had a good track record of credit with the Group. Based on past credit history, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered to be fully recoverable. As at 31 December 2013 and 2012, the Group did not hold any collateral in respect of trade receivables that were past due but not impaired.

Except for the balance of HK$66,000 (2012: Nil) which have been impaired individually, the remaining other receivables of HK$1,174,000 (2012: HK$1,956,000) were neither past due nor impaired.

21. HELD-TO-MATURITY FINANCIAL ASSETS – GROUP

	2013	2012
	HK$'000	*HK$'000*
Treasury bills, at amortised cost	**71**	38

Treasury bills are listed outside Hong Kong, have a fixed yield of 1.050% (2012: 1.625%) per annum and will be matured on 5 February 2014 (2012: 20 February 2013). The market value of these held-to-maturity financial assets is HK$71,000 (2012: HK$38,000).

22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash at banks and on hand	**35,996**	20,870	**284**	359
Time deposits	**12,618**	13,353	**–**	–
	48,614	34,223	**284**	359

Time deposits earn interest at 1.25%–4.75% (2012: 2.50%–4.75%) per annum and have an original maturity of 1 to 3 (2012: 3) months. 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 2013 are deposits of HK$13,090,000 (2012: HK$8,256,000) 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 2013 (2012: Nil).

23. TRADE PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables	**11,841**	9,730	**–**	–
Accruals	**8,356**	6,797	**283**	257
Deposits received	**6,369**	12,548	**–**	–
	26,566	29,075	**283**	257

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

	2013	2012
	HK$'000	*HK$'000*
0 – 30 days	**8,661**	5,596
31 – 60 days	**2,640**	3,072
61 – 90 days	**323**	883
91 – 365 days	**52**	142
Over 365 days	**165**	37
	11,841	9,730

24. BANK BORROWINGS, SECURED – GROUP

	2013	2012
	HK$'000	*HK$'000*
Term loans	**36,341**	14,218

Bank borrowings are interest-bearing at floating rates of Hong Kong Interbank Offered Rate plus a spread or Hong Kong dollar Prime Rate minus a spread.

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

	2013	2012
	HK$'000	*HK$'000*
Within one year	**13,997**	5,544
In the second year	**13,364**	4,096
In the third to fifth year	**8,980**	4,578
	36,341	14,218

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 2013, 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 ASSETS/LIABILITIES – GROUP

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Accelerated tax depreciation allowances *HK$'000*	Defined benefit obligations *HK$'000*	Others *HK$'000*	Total *HK$'000*
At 1 January 2012	900	–	–	900
Credited to profit or loss (note 10)	(171)	–	–	(171)
At 31 December 2012 and 1 January 2013	729	–	–	729
Credited to profit or loss (note 10)	(218)	(70)	(475)	(763)
Credited to other comprehensive income (note 10)	–	(48)	–	(48)
At 31 December 2013	511	(118)	(475)	(82)

The amounts recognised in the consolidated statement of financial position are as follows:

	2013 *HK$'000*	2012 *HK$'000*
Deferred tax assets recognised in the statement of financial position	**(593)**	–
Deferred tax liabilities recognised in the statement of financial position	**511**	729
Net deferred tax (assets)/liabilities	**(82)**	729

The Group has unrecognised estimated tax losses of HK$8,000,000 (2012: HK$14,234,000) to carry forward against future taxable income. Tax losses of HK$8,000,000 (2012: HK$11,987,000) are related to certain subsidiaries operating in Hong Kong and can be carried forward indefinitely under the current tax legislation. In addition, as at 31 December 2012, certain subsidiaries operating in the PRC had unrecognised tax losses of HK$2,247,000 which are subject to expiry period of five years from the year in which the tax loss arose. 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.

25. DEFERRED TAX ASSETS/LIABILITIES – GROUP *(continued)*

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign-invested enterprises established in the PRC. The requirement applies to profits after 31 December 2007 pursuant to the Caishui 2008 No.1 dated 22 February 2008 issued by the State Tax Bureau of the PRC. The Group is therefore liable to withholding taxes on dividend distributed by the PRC subsidiary in respect of profits generated after 1 January 2008. At 31 December 2013, temporary differences arising from the undistributed profits of a subsidiary amounted to HK$842,000 (2012: Nil). Deferred tax liabilities of HK$84,000 (2012: Nil) have not been recognised as the Company controls the dividend policy of this subsidiary and it is probable that these profits will not be distributed in the foreseeable future.

26. DEFINED BENEFIT OBLIGATIONS – GROUP

The Group makes contributions to a separate defined benefit plan for qualifying employees in the Republic of Philippines. Contributions are based on the pension fund's actuarial measurement framework set out in the funding policies of the plan. Employees are not required to contribute to the plan and the Group expected to contributes HK$70,000 to its defined benefit plan in the next financial year. The defined benefit plan is administrated by a trustee that is legally separated from the Group. The trustee shall be responsible for the general administration of the plan and the management of the fund and is required by the law to act in the best interest of the plan participants and responsible for the investment policy with regard to the assets of the fund. Under the plan, all benefits under the plan shall be payable to the employee in the form of a single sum equal to 100% of final salary for each year of service until their retirement. Amounts recognised in total comprehensive income in respect of the defined benefit plan are as follows:

	2013 *HK$'000*	2012 *HK$'000*
Service costs		
– Current service costs	98	69
– Past service costs	–	229
	98	298
Net interest on net defined benefit obligations	14	–
Amount recognised in profit or loss (note 14)	112	298
Remeasurement on net liability arising from defined benefit obligations		
Return on plan assets, excluding interest income	(3)	(12)
Actuarial (gain)/losses arising from changes in financial assumptions	(60)	244
Amount recognised in other comprehensive income	(63)	232
Total defined benefit costs	49	530

26. DEFINED BENEFIT OBLIGATIONS – GROUP *(continued)*

The service costs for the year and the net interest on net defined benefit obligations are included in administrative expenses.

The amount included in the consolidated statement of financial position arising from the Group's obligations in respect of its defined benefit plan is as follows:

	2013	2012
	HK$'000	*HK$'000*
Present value of funded defined benefit obligations	568	556
Fair value of plan assets	(307)	(253)
Net liability arising from defined benefit obligations	261	303

A portion of the above liability is expected to be settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The major categories of plan assets at the end of the reporting period are as follows:

	2013	2012
	HK$'000	*HK$'000*
Government bond	307	253

All investment funds have quoted prices in active markets. Movements in the fair value of plan assets and the present value of defined benefit obligations are as follows:

	2013	2012
	HK$'000	*HK$'000*
Fair value of plan assets		
At 1 January	253	–
Interest income	15	–
Return on plan assets, excluding interest income	3	12
Contributions from the Group	74	241
Benefits paid by the plan	(23)	–
Exchange difference	(15)	–
At 31 December	307	253

26. DEFINED BENEFIT OBLIGATIONS – GROUP *(continued)*

	2013 *HK$'000*	2012 *HK$'000*
Present value of defined benefit obligations		
At 1 January	556	–
Interest cost	29	–
Actuarial (gain)/losses arising from changes in financial assumptions	(60)	244
Past service costs	–	229
Current service costs	98	69
Benefits paid by the plan	(23)	–
Exchange difference	(32)	14
At 31 December	568	556

95.0% of the benefits are vested at the end of the reporting period (2012: 10.3%). The weighted average duration of the defined benefit obligations at the end of the reporting period is 15.0 (2012: 19.3) years.

The most recent actuarial valuation of the present value of the defined benefit obligations was carried out at 31 December 2013 by E.M. Zalamea Actuarial Services, Inc. (who is a Member of the International Actuarial Association, Fellow of the Actuarial Society of the Philippines and Member of the International Association of Consulting Actuaries), using the projected unit credit method. Based on the actuarial valuation, 54% of the Group's obligations under the defined benefit plan are covered by the plan assets held by the trustee (2012: 46%). The shortfall of HK$261,000 (2012: HK$303,000) is to be cleared over the estimated remaining service period. The principal assumptions used for the purpose of the actuarial valuations are as follows:

	2013	2012
Discount rate	6.38%	5.62%
Future salary increase	5.00%	5.00%
Withdrawal rate	55%	55%
Normal retirement age	60	60
Average age for current members	27.5	27.3

26. DEFINED BENEFIT OBLIGATIONS – GROUP *(continued)*

The plan in the Republic of Philippines typically exposes the Group to actuarial risks, such as longevity risk, interest rate risk, investment risk and salary risk. The calculation of the defined benefit obligations is sensitive to the assumptions set out above. The following table summarises how the impact on the defined benefit obligations at the end of the reporting period would have increased/(decreased) as a result of a change in the respective assumptions by 100 basis point ("bp").

	2013		2012	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Discount rate	(78)	92	(80)	95
Future salary increase	87	(75)	89	(77)
Withdrawal rate	(4)	5	(4)	4

As the actuarial estimates of mortality continue to be refined, an increase of one year in the lives shown above is considered reasonably possible in the next financial year. The effect of this change would have immaterial impact to the defined benefit obligations.

The above sensitivities are based on the duration of the benefit obligations determined at the date of the last full actuarial valuation at 31 December 2013.

27. SHARE CAPITAL

	2013 Number of shares '000	2013 HK$'000	2012 Number of shares '000	2012 HK$'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	**284,058**	**28,406**	283,161	28,316
Issue of ordinary shares upon exercise of share options	**–**	**–**	897	90
At 31 December	**284,058**	**28,406**	284,058	28,406

28. SHARE-BASED COMPENSATION

Pursuant to resolutions of the shareholders passed on 27 October 2003, a share option scheme (the "Scheme") was adopted. Share 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 share options under the Scheme to subscribe for shares of HK$0.10 each at an exercise price of HK$0.24 per share.

A share 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 share 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 share options would be granted but in respect of all share options which had been granted prior to the end of such period, the provisions of the Scheme shall remain in full force and effect.

28. SHARE-BASED COMPENSATION *(continued)*

The number of share options and the terms and conditions of the grants are as follows:

	Grant date	Number of share options At 1 January	Granted	Exercised	Lapsed	At 31 December	Period during which the share options are exercisable	Exercise price per share
2013								
Employees	27 October 2003	4,259	–	–	(4,259)	–	10 May 2004 to 20 January 2013	HK$0.24
2012								
Employees	27 October 2003	900,776	–	(896,517)	–	4,259	10 May 2004 to 20 January 2013	HK$0.24

Notes:

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

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

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

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

As at 31 December 2013, there is no outstanding share options granted under the Scheme. The total number of securities available for issue under the Scheme as at 31 December 2012 was 4,259, which represented 0.001% of the issued share capital of the Company at that date.

The weighted average closing price of the Company's ordinary shares immediately before the date and at the date on which the share options were exercised during 2012 was HK$0.455.

The share options outstanding as at 31 December 2012 had a weighted exercise price of HK$0.24 and a weighted average remaining contractual life of 0.1 year.

29. RESERVES

Company

	Share premium HK$'000	(Accumulated losses)/ Retained profits HK$'000	Proposed dividend HK$'000	Total HK$'000
Balance as at 1 January 2012	17,829	(10,095)	–	7,734
Issue of shares upon exercise of share options	126	–	–	126
Transaction with owners	126	–	–	126
Profit for the year	–	16,972	–	16,972
Other comprehensive income for the year	–	–	–	–
Total comprehensive income for the year	–	16,972	–	16,972
2012 final dividend proposed (note 12)	–	(4,261)	4,261	–
Balance as at 31 December 2012 and 1 January 2013	17,955	2,616	4,261	24,832
Dividend approved in respect of previous year	–	–	(4,261)	(4,261)
Transaction with owners	–	–	(4,261)	(4,261)
Profit for the year	–	7,971	–	7,971
Other comprehensive income for the year	–	–	–	–
Total comprehensive income for the year	–	7,971	–	7,971
2013 final dividend proposed (note 12)	–	(5,681)	5,681	–
Balance as at 31 December 2013	**17,955**	**4,906**	**5,681**	**28,542**

29. 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 47–48 of the financial statements.

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

30. OPERATING LEASE COMMITMENTS

The Group leases a number of properties under operating lease arrangements. Leases are negotiated for terms of one to five years (2012: one to five years). None of the leases include contingent rentals.

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

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	HK$'000
Within one year	**2,540**	3,645	**–**	–
In the second to fifth years, inclusive	**442**	1,681	**–**	–
	2,982	5,326	**–**	–

31. 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 and the Company is as follows:

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	HK$'000
Salaries and other short-term employee benefits	**8,277**	7,779	**360**	360
Retirement benefits costs	**106**	108	**–**	–
	8,383	7,887	**360**	360

At 31 December 2013, the Company has given corporate guarantees to the banks to the extent of HK$73,667,000 (2012: HK$44,000,000) 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 and the Company do not have other material transactions with related parties during the year.

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

The Group is exposed to market risk (including currency risk and 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.

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

32.1 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	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets				
Loans and receivables				
– Trade receivables	**27,332**	15,531	**–**	–
– Other receivables	**1,174**	1,956	**–**	–
– Cash and cash equivalents	**48,614**	34,223	**284**	359
– Amount due from a subsidiary	**–**	–	**42,741**	38,967
	77,120	51,710	**43,025**	39,326
Held-to-maturity financial assets	**71**	38	**–**	–
	77,191	51,748	**43,025**	39,326
Financial liabilities				
At amortised cost				
– Trade payables	**11,841**	9,730	**–**	–
– Accruals	**8,356**	6,797	**283**	257
– Bank borrowings	**36,341**	14,218	**–**	–
	56,538	30,745	**283**	257

32.2 Currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to currency risk arises from its overseas sales and purchases, which are primarily denominated in Euros ("EURO"), United States dollars ("US$") and RMB. Furthermore, the Group has bank deposits denominated in these foreign currencies. These are not functional currencies of the group entities to which these transactions related.

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.

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

32.2 Currency risk *(continued)*

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 2013			
Trade receivables	**6,997**	**10,370**	**–**
Other receivables	**30**	**759**	**81**
Cash and cash equivalents	**612**	**12,540**	**6,143**
Trade payables and accruals	**(229)**	**(4,418)**	**(3,657)**
Net exposure	**7,410**	**19,251**	**2,567**

	Expressed in HK$'000		
	EURO	US$	RMB
As at 31 December 2012			
Trade receivables	3,086	10,276	–
Other receivables	25	869	24
Cash and cash equivalents	397	11,058	6,536
Trade payables and accruals	(562)	(3,953)	(2,427)
Net exposure	2,946	18,250	4,133

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

32.2 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 2013			
Cash and cash equivalents	–	179	–
Accruals	–	(6)	–
Net exposure	–	173	–

	Expressed in HK$'000		
	EURO	US$	RMB
As at 31 December 2012			
Cash and cash equivalents	–	240	–
Accruals	–	(6)	–
Net exposure	–	234	–

At 31 December 2013, 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$416,000 (2012: HK$354,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of EURO and RMB. As HK$ 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 2012.

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

32.3 Interest rate risk

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

At 31 December 2013, if interest rates had increased/decreased by 0.5% (2012: 0.5%), with all other variables held constant, the Group's profit after income tax for the year would decrease by approximately HK$7,000 (2012: increase by approximately HK$25,000)/increase by approximately HK$7,000 (2012: decrease by approximately HK$25,000). 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 2012.

32.4 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. The Company's maximum exposure to credit risk which will cause a financial loss to the Company is due to financial guarantee provided to a subsidiary, and the Company is exposed to credit risk for maximum amount of HK$73,667,000 (2012: HK$44,000,000).

Credit risk for trade receivables is concentrated as 27% (2012: 22%) of total trade receivables are due from the Group's largest debtor. 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.

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.

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

32.5 Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities. 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.

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 2013 and 2012. When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date on 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 2013			
Trade payables	**11,841**	**–**	**–**
Accruals	**8,356**	**–**	**–**
Bank borrowings*	**36,341**	**–**	**–**
	56,538	**–**	**–**
At 31 December 2012			
Trade payables	9,730	–	–
Accruals	6,797	–	–
Bank borrowings*	14,218	–	–
	30,745	–	–

* 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 2013, the aggregate undiscounted principal amounts of these financial liabilities amounted to HK$38,163,000 (2012: HK$15,003,000).

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

32.5 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.

	Within 1 year *HK$'000*	Between 1 and 2 years *HK$'000*	Between 2 and 5 years *HK$'000*
At 31 December 2013			
Bank borrowings	15,081	13,941	9,141
At 31 December 2012			
Bank borrowings	5,954	4,344	4,705

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 2013 and 2012 (notes 24(i) and 31), 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.

32.6 Fair value measurements

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

33. 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.

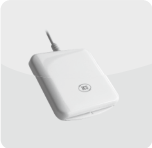
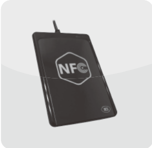
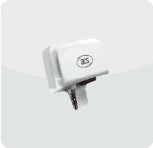
The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, 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 27 and reserves as disclosed in note 29 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 2013 and 2012.

34. APPROVAL OF FINANCIAL STATEMENT

The financial statements for the year ended 31 December 2013 were approved and authorised for issue by the board of directors on 17 March 2014.

FINANCIAL SUMMARY

31 December

	2013	2012	2011	2010	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
RESULTS					
Revenue	**194,360**	160,855	117,488	93,729	104,963
Cost of sales and services provided	**81,340**	74,009	57,043	43,086	52,521
Gross profit	**113,020**	86,846	60,445	50,643	52,442
Gross profit margin	**58%**	54%	51%	54%	50%
Profit for the year	**23,203**	16,874	5,119	4,434	12,219
Net profit margin	**12%**	10%	4%	5%	12%
ASSETS AND LIABILITIES					
Total assets	**164,654**	127,864	108,018	81,741	76,758
Total liabilities	**64,707**	47,790	45,053	24,301	20,853
Total equity	**99,947**	80,074	62,965	57,440	55,905