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 2014

* *For identification only*

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

As at the date of this document, the Board comprises 3 executive directors, namely Mr. Wong Yiu Chu, Mr. Tan Keng Boon, and Ms. Tsui Kam Ling; and 3 independent non-executive directors, Mr. Lo Kar Chun, SBS, JP, Mr. Wong Yick Man, Francis, and Mr. Yim Kai Pung.

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CORPORATE INFORMATION

DIRECTORS

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

Independent Non-executive Directors
Mr. Lo Kar Chun, SBS, JP
(appointed on 17 March 2014)
Mr. Wong Yick Man, Francis
Mr. Yim Kai Pung *(appointed on 10 June 2014)*
Dr. Yip Chak Lam, Peter *(retired on 21 May 2014)*
Mr. Yu Man Woon *(resigned on 10 June 2014)*

AUTHORISED REPRESENTATIVES

Mr. Wong Yiu Chu
Mr. Tan Keng Boon

COMPANY SECRETARY

Ms. Lee Ka Man, *ACS, ACIS*

COMPLIANCE OFFICER

Mr. Wong Yiu Chu

AUDIT COMMITTEE

Mr. Yim Kai Pung *(Chairman)*
Mr. Lo Kar Chun, SBS, JP
Mr. Wong Yick Man, Francis

REMUNERATION COMMITTEE

Mr. Lo Kar Chun, SBS, JP *(Chairman)*
Mr. Wong Yiu Chu
Mr. Yim Kai Pung

NOMINATION COMMITTEE

Mr. Wong Yiu Chu *(Chairman)*
Mr. Lo Kar Chun, SBS, JP
Ms. Tsui Kam Ling
Mr. Wong Yick Man, Francis
Mr. Yim Kai Pung

AUDITOR

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

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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
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183 Queen's Road East
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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 2014.

The year 2014 was a rewarding year for ACS as the Group has achieved an excellent performance in all aspects of its businesses. We were honored by inclusion within Forbes Asia's "Best Under a Billion" list, the second time for the Group to achieve this prestigious ranking since 2010. During the review year, the Group reported a record high sales revenue of HK$246 million, representing an increase of 27% over the same period last year. Gross profit and net profit also rose 8% and 2% to HK$122 million and HK$24 million respectively. Our business in the Asia Pacific region performed exceptionally well with a remarkable revenue growth of 73%. As more than 60% of our headcount is R&D talent spread across Manila, the PRC, and Hong Kong, the Group has been investing heavily in R&D to prepare for better future growth by entering into larger market segments of the smart card industry. Therefore, our R&D expenses have increased by 17% in 2014.

With two decades of experience, ACS is one of the major suppliers of PC-linked readers. Our sales revenue generated from smart cards more than doubled compared to 2013. During the year, we have secured several impressive projects. For example, ACS was chosen as the smart card supplier for a social security smart card project in Ghana, a western African country. The Group supplied 1.7 million units of smart card, which is capable of securely storing and processing sensitive information for managing pensions and similar forms of national social insurance. Furthermore, it is capable of supporting public key infrastructure applications, which would facilitate long-term plans of the government to use the card for a wider variety of government services.

On top of its hardware business, ACS has also successfully entered into the solutions business in recent years. Since the successful launch of our e-PLUS Tap to Pay loyalty program for SM Prime Holdings, Inc. ("SM") in 2013, one of the biggest shopping mall operators in the Republic of the Philippines (the "Philippines"), more than 1,300,000 contactless smart cards have been issued. Building on this success, we have extended our service to SM Cinema by installing 128 ticketing kiosks and 253 turnstiles in 48 SM-operated shopping malls all over the Philippines in 2014. This roll-out is believed to shorten queuing times among cinema-goers, reduced cash handling in SM cinemas, and improved data-generation activities. In addition, the Group has also helped SM retrofit its turnstiles system in the Mall of Asia ("MOA") Arena in Manila, an indoor event venue in the SM MOA Complex used for music concerts and sporting events with a seating capacity of up to 20,000. ACS was responsible for system configuration and integration as well as hardware installation. ACS believes the system has enabled faster transactions, easier data-generation for improving future event offerings, and an improved overall patron experience. ACS is leveraging this initial success with SM to expand this business model to business partners elsewhere in Southeast Asia (e.g. Thailand, Indonesia, and Malaysia).



CHAIRMAN'S STATEMENT

Building on our strong R&D capability and vast industry experience, ACS is committed to develop more sophisticated smart card terminals and enter the smart card payment industry, in particular, Automatic Fare Collection ("AFC") system solutions for the public transportation market in the People's Republic of China (the "PRC"). To execute this strategy, during the review year ACS has acquired certain business assets of Shenzhen Daming Wuzhou City Smart Card Technology Company Limited ("Daming Wuzhou"), one of the major AFC suppliers in the PRC. Daming Wuzhou has deployed its AFC solutions in many cities nationwide. With this acquisition, ACS would be able to leverage the customer network of Daming Wuzhou and supply AFC solutions and other applications to the PRC market.

Recently, ACS's technology leadership has been recognized through international industry accolades. Our e-PLUS Tap to Pay solution developed by our in-house R&D team has garnered many awards, highlighted by a Silver Award in the 2014 IVIE Awards in Canada, under the International Payments Benefiting Merchants category as well as the Best Contactless Payments Project at Payments Awards 2014 in the United Kingdom. ACS was also honoured with the Technological Achievement Award for its contactless smart card reader module technology at the 2014 Hong Kong Awards for Industries.

Moving forward, ACS will continue to develop a wide range of smart card operating systems and readers to capture the opportunities arising from the rapid take-up of digitalization and e-commerce, especially in the payment and AFC segments. With our strong R&D team and advanced technologies developed in-house, we are confident that the Group can capture the lucrative opportunities provided by these future growth drivers.

Last but not least, 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 advice and to our business partners and shareholders for their continuous support.

WONG Yiu Chu
Chairman and CEO

Hong Kong, 27 February 2015

MANAGEMENT DISCUSSION AND ANALYSIS

Although market competition is fierce in 2014, the Group continued to seize market opportunities with its current competitive advantages such as high quality of products and services, comprehensive product range, well experience in customized solution, being one-stop supplier for both hardware and software, etc. to achieve stable increase of turnover.

FINANCIAL REVIEW

For the year ended 31 December 2014, the Company's turnover reached HK$246 million, with a growth rate of 27% compared with that of HK$194 million in 2013. The gross profit and profit for the year amounted to HK$122 million and HK$24 million respectively, which both increased compared with 2013. The profit attributed to the shareholder of the Company was HK$24 million and the basic earnings per share for the year 2014 was HK8.352 cents per share.

Significant Growth in Turnover

The Group's sales revenue for the year ended 31 December 2014 increased by 27% compared to the previous year (2013: HK$194 million). ACS continues to introduce new products to the market so the decline of the sales of one product line owing to maturity can be compensated by the increase in sales of an emerging line. In addition, ACS sells its products and services to over 100 countries over the world such that sales performance will not be easily affected by temporary economic weaknesses in one region. Therefore, turnover of the Group kept increasing since 2010. The sales revenue is grouped into four regions as shown below:

	2014	2013	Change
	HK$'000	*HK$'000*	
Asia Pacific	**126,532**	73,323	73%
Europe	**75,604**	68,288	11%
The Americas	**38,983**	40,814	-4%
Middle East and Africa	**5,204**	11,935	-56%
	246,323	194,360	27%

The remarkable growth in the Asia Pacific region was primarily attributable to the fast growing AFC solutions business in the region. In 2013, the Group became the technology partner of SM and started to supply both hardware and software for their AFC system, significant portion was completed and delivered to SM in 2014 which contributed over 20% of total revenue of the Group for 2014. In addition, in 2014, the Group co-operated with a new customer in Asia Pacific region to supply more than 1,700,000 smart cards for a Ghana Social Security card project, which also contributed to the increase in sales of Asia Pacific Region. The Europe region has also seen a healthy growth in 2014 which was mainly due to the increased orders of hardware sales. The decrease in the Americas region and Middle East and Africa region was both due to lack of new significant project in 2014.

FINANCIAL REVIEW *(continued)*

Maintain Stable Profitability

Gross profit for 2014 increased by 8% compared to the previous year (2014: HK$121,857k; 2013: HK$113,020k) as a result of the remarkable increase in turnover. The Group's gross profit margin dropped from 58% in 2013 to 49% in 2014. The gross profit margin for 2013 was higher as the proportion of sales of AFC software, which generally has higher gross profit margin, in 2013 is higher compared to 2014. Moreover, the Group launched several new products with lower selling prices in 2014 in order to build up market share of these new products which affected the overall gross profit margin.

Total expenses for 2014 increased by 11% compared to the previous year (2014: HK$96,465k; 2013: HK$86,767k). This increase was mainly attributable to the increase in staff costs from HK$48 million in 2013 to HK$55 million in 2014 as a result of the increase in headcount. The Group had 76 additional headcount during 2014 (2014: 365 staff; 2013: 289 staff). Apart from the increase in staff costs, amortization of intangibles also increased from HK$8 million in 2013 to HK$9 million in 2014 as a result of the launching of new products and acquisition of business assets from Daming Wuzhou during the year. The increase in research and development expenses contributed the most among all kind of expenses which was attributable to the increase in additional headcount during the year 2014 mainly for engineers to further strengthening our research and development team.

As a result of the increase in gross profit and increase in expenses, profit for the year for 2014 slightly increased by 2% compared to the previous year (2014: HK$23,724k; 2013: HK$23,203k).

Balance Sheet

The inventories decreased from HK$44 million as at 31 December 2013 to HK$40 million as at 31 December 2014, the decrease was a combined result of decrease in customization products order for the coming quarter and the improvement in inventory management.

The trade and other receivables, prepayments and deposits paid increased significantly to HK$54 million as at 31 December 2014 from HK$32 million as at 31 December 2013. The increase was mainly attributable to the increase of trade receivables by HK$19 million, which is in line with the increase in sales in the fourth quarter of 2014 compared with the corresponding period of 2013 (2014: HK$73 million; 2013: HK$53 million). Customers are generally granted credit term of 7 to 90 days, thus, increase in turnover in the fourth quarter directly affected trade receivables as at 31 December 2014.

DIVIDEND

The board of directors (the "Board") has recommended the payment of a final dividend of HK2.0 cents (2013: HK2.0 cents) per share, totalling of HK$5.7 million, for the year ended 31 December 2014. Subject to approval by the shareholders at the forthcoming annual general meeting on 29 April 2015, the final dividend will be paid on 20 May 2015 to shareholders whose names appear on the register of members of the Company on 8 May 2015.

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group has sustained its upward progress. From the milestones and accolades described below, the Group is apparently cementing its position in the smart card and smart card reader industry to generate steady revenue streams to be partly reinvested to develop other products and end-to-end smart card related solutions for the long term. By providing new products such as mobile card readers and end-to-end solutions such as AFC systems, retail and loyalty systems, as well as other electronic purse and payment systems, the Group is gaining entry to emerging as well as larger markets.

Forbes Asia Best Under A Billion

In 2014, ACS was declared as one of Forbes Asia's "Best Under a Billion." This is an unranked list that represents the top one percent of publicly listed Asia Pacific companies with revenues between USD 5 million and USD 1 billion. The list covers all industries, such as manufacturing, construction, software, and so forth.

To be eligible, companies must not only be profitable; they must also be consistently growing, with modest indebtedness, and free from any major legal trouble and questionable accounting or management practices. This is the second time that ACS has been included in the list, the first being in 2010.

Forbes Asia Best Under A Billion Forum and Awards Dinner

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(continued)*

Awards and International Recognition

The Group's solutions business is also firmly on track, garnering recognition worldwide. In 2013, the Group announced that it had been chosen as the technology partner of SM Prime Holdings, Inc., one of the biggest shopping mall operators in the Philippines, for its smart card-based prepaid retail and loyalty solution, the e-PLUS Tap to Pay. According to public information, SM's retail business includes more than 48 malls in the Philippines, with around 16,000 merchants, 6.2 million square meter of gross floor area, and an average daily foot traffic of 3.4 million pedestrians. With the e-PLUS Tap to Pay solution, mall matrons may use their card for a large variety of functions, including payment, loyalty point consumption and redemption at multiple merchants, gaining access to cinemas and other entertainment venues, as well as paying fares for transportation shuttles.

In 2014, this project received international recognition:

It was declared "Best Contactless Payments Project" in Payments Awards, an annual event organized by leading technology publications in UK to honor payment technology solutions that set standards for innovation and excellence. The system has introduced benefits for merchants and consumers alike which became a successful contactless payment and loyalty system in the Philippines.

It was declared the "Coolest MIFARE application in use" in the annual MIFARE Awards, where the system was lauded for how it has managed to promote a cashless community rapidly after deployment.

It also received a Silver Award in ACT CANADA's 2014 IVIE Awards. ACT CANADA, an international non-profit association serving different stakeholders of the smart card industry. IVIE Awards recognizes "innovation in payments and secure identity products using secure chip technologies."

Elsewhere, Abiria Card, the Group's end-to-end, AFC system in Kenya, also received a Silver Award. Other solutions of the Group have been either shortlisted, or have placed in international awards programs, attesting to the competitiveness of the Group in the solutions business.

BUSINESS REVIEW *(continued)*

Products and Services Launched

In 2014, the Group launched new products for the mobile platform. The Group has always provided users with a wide array of options, to cater to various needs. As such, this year it launched devices that were developed with users' functional, aesthetic, and mobility requirements in mind, ensuring that regardless of whether the market prefers to use readers with PCs or mobile devices, there will be an ACS device that puts the benefits of smart card technology at its fingertips:

ACR39T-A1 and ACR39T-A3

In August 2014, the Group launched two new readers for SIM-sized smart cards: ACR39T-A1, a PC-linked reader, and ACR39T-A3, a mobile card reader.

Both readers support ISO 7816 SIM-sized smart cards, GSM 11.11-compliant cards, various memory cards, and microprocessor cards with T=0 and T=1 protocol. Upon request, both devices can also support micro-SIM-sized cards. These ultra-portable devices are compliant and certified with major international standards, including CE, FCC, RoHs, and Microsoft WHQL, and have a read/write speed of 600 Kbps.

The ACR39T-A1 is PC/SC and CCID-compliant, and is therefore easily integrated into Windows®, Linux, and Mac environments. It also works with mobile devices running on Android™ 3.1 and above. Even at a mere 8.5 grams, the ACR39T-A1 is still powerful enough to support e-government, e-banking and e-payment, e-healthcare, public key infrastructure, network security, access control, and loyalty applications.

Meanwhile, the ACR39T-A3 has a micro-USB OTG interface, and supports mobile devices running on Android™ 3.1 and above. This 7.9-gram device is suitable for mobile banking and payment, e-healthcare, and loyalty applications.

ACR39T-A3

ACR35 NFC MobileMate

BUSINESS REVIEW *(continued)*

Products and Services Launched *(continued)*

ACR32 MobileMate and ACR35 NFC MobileMate

In November 2014, the Group launched two new mobile card readers with audio-jack interface: the ACR32 MobileMate, a magnetic stripe and contact smart card reader, and the ACR35 NFC MobileMate, a magnetic stripe card and Near Field Communication ("NFC") tag reader.

Both mobile card readers support hi-coercivity and low-coercivity magnetic stripe cards conforming to ISO 7810/ISO 7811 specifications. They interact with mobile devices via the standard 3.5 mm audio-jack interface. Each device comes with one bi-color LED and one rechargeable Lithium-ion battery. To secure transactions, both devices are capable of utilizing DUKPT key management system and AES-128 encryption algorithm.

Both devices may be integrated into mobile environments running on iOS (versions 5.0 and above) and Android™ (versions 2.0 and above). ACS MobileMate App, a demo application for these mobile card readers, is already available on the App Store, and will soon be available on Google Play.

The ACR32 may be plugged into a mobile device, or linked to a PC because of its USB 2.0 full speed interface to perform transactions. It works in Windows®, Linux, and Mac environments. Aside from magnetic stripe cards, it also supports ISO 7816 Class A, B, and C smart cards, MCU cards with T=0 or T=1 protocol, and most memory cards.

Meanwhile, the ACR35 supports mobile devices exclusively. Aside from magnetic stripe cards, it can access ISO 14443 Type A and B cards, MIFARE cards, FeliCa cards, and ISO/IEC 18092 NFC tags. The ACR35 is charged via USB cable.

The ACR32 and ACR35 are suitable for mobile banking, mobile payment, e-healthcare, and loyalty applications.

Contactless Smart Card Reader Module Technology

The contactless smart card reader module is the platform for many of ACS's contactless smart card readers. It is developed based on 13.56 MHz Radio-frequency identification (RFID), ISO14443, and ISO18092 NFC technology which enables communication between a host and a contactless card or NFC-enabled phone. It may be integrated with other technologies, e.g. biometric readers, for stronger authentication or incorporated into mobile card readers to enable even mobile devices without built-in NFC to facilitate contactless transactions.

The contactless smart card reader module enables ACS to be quicker and more flexible in responding to different market trends and customers' requests.

BUSINESS REVIEW *(continued)*

Contactless Smart Card Reader Module Technology *(continued)*

It received the Technological Achievement Award in the annual Hong Kong Awards for Industries. The Technological Achievement Award recognizes outstanding achievements of Hong Kong enterprises in pursuit of high-technology and high value-added activities. Entries are evaluated based on excellence, value of intellectual property, contribution to society, and market recognition.

The contactless smart card reader module technology also received a Certificate of Merit for Communications. The award was given on 30 November 2014 in Jakarta, Indonesia, during the Asia Pacific Information and Communication Technology Alliance ("APICTA") Awards. APICTA judged the entry based on: uniqueness, market potential, functionalities and features, quality, and application of technology. ACS's contactless smart card reader module technology stood out from other entries from different countries in the Asia Pacific region.

This success of the contactless smart card reader module technology was further celebrated by the Hong Kong Computer Society ("HKCS"), a non-profit professional organization striving to develop Hong Kong's IT industry. Every year, HKCS nominates IT products or services that show significant promise and societal contributions. HKCS nominated ACS in 2014, and ACS was able to share information about its entry in the APICTA Awards 2014 – Winners & Merits Sharing Session and Press Conference on 8 December, which convenes the Hong Kong delegates for the APICTA awards, as a way to facilitate knowledge-sharing among Hong Kong's IT industry players.

The awards received by the Group in 2014 have compelled it to elevate efforts even further, to come out with even higher-performing devices and solutions in 2015.

Smart Card Alliance

The Group is also cultivating its position of leadership in the industry. ACS has been elected as a steering committee member for two Smart Card Alliance ("SCA") Industry Councils.

From 2015 to 2016, ACS will be part of the steering committees for Health and Human Services, and Access Control, where it can play a key role in helping accelerate adoption of smart card technology in two key sectors. Smart card-based healthcare solutions are diverse, ranging from storage of patient records, to prevention of claim fraud. Meanwhile, smart card-based access control encompasses multiple industries, as security becomes a more pressing concern for all.

SCA is a "not-for-profit, multi-industry association working to stimulate the understanding, adoption, use and widespread application of smart card technology." An SCA Industry Council works to increase industry collaboration in a specific industry or market segment. Councils are headed by steering committees, which set strategy and direction, as well as approve activities and deliverables. SCA has six active Industry Councils: Access Control, Health and Human Services, Identity, Payments, Transportation, and Mobile and NFC.

BUSINESS REVIEW *(continued)*

Exhibitions

In addition to more active involvement in various industry alliances, the Group is becoming more actively represented in speaking opportunities. Below are a few of the industry events ACS has participated in during 2014:

1. Cards and Payments Asia 2014
2. NFC Solutions Summit 2014
3. Cardware 2014: Payment and Digital ID Insights
4. NFC Bootcamp 2014
5. Cartes Secure Connexions 2014

ACS has also been an exhibitor and sponsor for various industry events all over the world, where it has benefitted from a wealth of opportunities.

Cartes Secure Connexions 2014

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

The Group has accumulated almost 20 years of experience in smart cards, smart card readers, and related technologies. In recent years, the Group has leveraged this experience and made use of the revenues from these core businesses to further develop new products and product lines. With a strong technical foundation, the Group is well positioned to capture relevant, emerging markets such as NFC and payment technologies, as well as expanding market share in existing markets by providing more responsive, flexible, and customized technologies. Furthermore, new markets such as end-to-end solutions markets, particularly electronic purse solutions including AFC systems, retail and loyalty systems, and other payment systems, can be explored in depth.

In 2014, a year after the Group launched its retail, loyalty, and payment solutions for Philippine's retail giant SM, the technology has gained worldwide recognition and acknowledgement, representing a major milestone in the Group's entry into the end-to-end solutions business. With the successful launch of the technology, we expect our technology will be rolled out to more cardholders, participating merchants, and applications encompassed by the system, which will represent not only future business opportunities but also provide an avenue for the Group to bring the all-in-one card concept even closer to reality. With a successful system deployed in one of the most populated countries in the world, the Group may explore other similar markets.

Additionally, the Group acquired certain business assets of Daming Wuzhou, one of the largest AFC system suppliers in the PRC. With AFC systems deployed in more than 40 cities in the PRC, the Group can further leverage Daming Wuzhou's existing customer network as well as its other experiences to further penetrate the AFC and payment solutions market in the PRC. Furthermore, by integrating our existing technical knowledge and operational experience with those from Daming Wuzhou, the Group will be capable of providing advanced technologies incorporating sophisticated operational techniques in the PRC.

The Group has steadily increased its presence in important regions globally. In 2012, a new office was opened in Japan, and in 2013, a new office was opened in the USA. These offices have since provided the Group with new opportunities and business potentials. In 2014, the Group has strengthened its presence in the Philippines and the PRC, through the successful implementation of its retail, loyalty, and payment solution for SM and the acquisition of certain business assets of Daming Wuzhou, respectively. In 2015 and beyond, the Group will continue to solidify its businesses in these regions, as well as expand to other previously underserved markets.

The Group is accumulating technical expertise through constantly reinvesting in research and development, acquisitions, and partnerships with companies globally. At the same time, the Group continues to emphasize the high quality of its products and services, after-sales services, and other deliverables; gaining recognition and awards on multiple fronts. Ultimately, the Group is able to competitively enter previously unserved markets that are larger and have higher gross profit margin. With its increasingly complex technology offerings backed by strong technical knowledge and recognition, the Group is in a good position to expand its business in the short as well as long-term.

PROSPECTS *(continued)*

EMV Bank Card Personalization Centre

In order to strengthen the retail electronic payment infrastructure of the Philippines, and to enhance protection against ATM and credit fraud, a set of guidelines issued by the Monetary board of the Philippines has been approved and announced in August, 2013. The guidelines mandate all banks, non-bank financial institutions, electronic money issuers, and other non-bank entities subject to BSP supervision to implement an end-to-end triple DES encryption for all ATM cards. New ATMs installed should be triple DES compliant as well. Moreover, EMV (Europay, MasterCard, and Visa) chip cards must be implemented by 1 January 2017.

Eyeing this change, the Group set up a joint venture company, Goldpac ACS Technologies Inc. ("GATI"), with two independent third parties to establish an EMV certified smart card personalization center in the Philippines to capture the business from all local banks. Card personalization is one of the major components in the production of the EMV cards. EMVCo, LLC developed a standard for EMV personalization aimed to reduce the cost of issuing and to facilitate the migration to chip. EMV cards store payment information in a secure chip rather than on a magnetic stripe, and the personalization of EMV cards is done using issuer-specific keys. Unlike a magnetic stripe card, it is virtually impossible to create a counterfeit EMV card that can be used to conduct an EMV payment transaction successfully. Backed by the Group's large presence in Manila and one of our joint venture partners, an industry veteran in EMV bank card personalization business, the joint venture extends our traditional smart card and smart card reader business to EMV bank card personalization business.

LIQUIDITY, FINANCIAL RESOURCES, AND CAPITAL STRUCTURE

At all times the Group maintains a healthy liquidity position. As at 31 December 2014, the Group's cash and cash equivalents amounted to HK$36 million (31 December 2013: HK$49 million) and most of its cash was in bank accounts. The bank borrowings of the Group amounted to HK$35 million as at 31 December 2014 (31 December 2013: HK$36 million), which are denominated in Hong Kong dollars ("HK$") and United States dollars ("US$"), interest bearing at floating rates and repayable within five years. The gearing ratio, being the total interest bearing debts over the total equity, as at 31 December 2014 was 0.30 (31 December 2013: 0.36). Net asset value as at 31 December 2014 was HK$117 million (31 December 2013: HK$100 million).

The Group's equity capital, bank borrowings, together with the cash generated from operating activities, has been applied to fund its working capital and other operational needs. During the year 2014, the Group recorded net cash inflow in operating activities of HK$22 million (2013: HK$11 million). The increase in the net cash inflow in operating activities was largely due to decrease in inventory level and tax payment. The Group recorded net cash outflow in investing activities of HK$26 million (2013: HK$14 million) during 2014, increase in net cash outflow was largely due to the increase in research and development cost of HK$4 million, consideration paid for Daming Wuzhou Acquisition of HK$3 million and capital contribution to a joint venture of HK$3 million. The Group recorded net cash outflow in financing activities of HK$8 million in 2014 (2013: inflow of HK$17 million), changes was due to the Group obtained HK$22 million net cash from bank borrowing in 2013, while in 2014, the net repayment of HK$1 million was made.

ACQUISITIONS AND INVESTMENTS

In 2014, the Group acquired certain business assets from 深圳市大明五洲城市一卡通科技有限公司 (Shenzhen Daming Wuzhou City Smart Card Technology Company Limited*).

Save as the above, during the year, the Group did not make any significant investments.

ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

In 2014, the Group established a joint venture company, GATI, in the Philippines together with two independent third parties. GATI is held as to 45% by the Group and 55% by the other independent third parties as of 31 December 2014. Up to 31 December 2014, the Group contributed PHP 15.75 million (equivalent to approximately HK$2.7 million) to GATI.

Save as the above, during the year, the Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31 December 2014.

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

The assets, liabilities and transactions of the Group are primarily denominated in HK$, Euros (“EURO”), Philippine Pesos (“PHP”), US$, and Renminbi (“RMB”). The Group considers that exchange risk arising from US$ and RMB does not have significant financial impact to the Group. When appropriate, hedging instruments including forward contracts would be used to manage the foreign exchange exposure on EURO and PHP.

PLEDGE OF ASSETS

As at 31 December 2014, the Group did not pledge any of its material assets.

CONTINGENT LIABILITIES

As at 31 December 2014, the Company had outstanding corporate guarantee of HK$76 million (plus accrued interest thereon) to banks in respect of banking facilities granted to its major subsidiaries. As at 31 December 2014, the Group had available banking facilities approximately HK$68 million and of which HK$33 million had not been utilized. Save as disclosed herein, the Group did not have any significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2014, the Group had 365 full time employees. Staff costs recognised in profit or loss amounted to HK$55 million (2013: HK$48 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.

* For identification only.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. WONG Yiu Chu | Chairman & Chief Executive Officer

Mr. Wong Yiu Chu, aged 67, 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 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 telecommunications products. Later in 1997, he disposed of his entire shareholding interest in Advanced Electronics Limited to Future Electronics Holdings Inc., an electronic component distributor based in Canada. He was appointed as General Manager of Future Advanced Electronics Limited and subsequently Future Electronics (Hong Kong) Limited from 1997 to 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 Master degree in Business Administration in 1975 from The Chinese University of Hong Kong. He is the spouse of Ms. Tsui Kam Ling and the father of Mr. Wong Chi Ho and Mr. Wong Chi Kit.

Mr. TAN Keng Boon | Chief Technical Officer

Mr. Tan Keng Boon, aged 56, 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. Mr. Tan obtained a Bachelor of Engineering degree from the National University of Singapore in 1983.

Ms. TSUI Kam Ling | Executive Director

Ms. Tsui Kam Ling, aged 62, joined the Group in September 1998, 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 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 and the mother of Mr. Wong Chi Ho and Mr. Wong Chi Kit.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LO Kar Chun, SBS, JP

Mr. Lo Kar Chun, aged 63, was appointed as an independent non-executive director on 17 March 2014. He is also a member of the audit, nomination, and remuneration committees of the Company. Mr. Lo started his career as an Administrative Officer in the Hong Kong Government in 1974, occupying various senior positions in the Hong Kong Government during his 13 years of public service, before joining the private sector in 1987. He was the President and Chief Executive Officer in Synnex Technology International (HK) Ltd from December 1987 to December 2013 and Synnex Distributions (China) Ltd since its inception until December 2013. Mr. Lo is currently the Chairman of the 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. He is also a member of the Exchange Fund Advisory Committee in Hong Kong. Mr. Lo has a Bachelor degree of Science General (First Class Honour) from The University of Hong Kong.

Mr. WONG Yick Man, Francis

Mr. Francis Wong, aged 61, 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. He founded several telecommunications businesses in Hong Kong and in the United States, and 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.

Mr. YIM Kai Pung

Mr. Yim Kai Pung, aged 50, was appointed as an independent non-executive director on 10 June 2014. He is also the Chairman of the audit committee, and a member of the Company's nomination and remuneration committees. Mr. Yim has extensive experience working in CPA firms providing services of audit, tax advices and capital consultancy and planning arrangements for IPO services. He is a Managing Director of CCTH CPA Limited. He served as an independent non-executive director of Greens Holdings Limited from 2009 to 2015; independent non-executive director of Success Universe Group Limited (formerly known as Macau Success Limited) from 2004 to 2012; executive director of Heng Xin China Holdings Limited (formerly known as Tiger Tech Holdings Limited) from 2006 to 2007; and independent non-executive director of Magician Industries (Holdings) Limited (presently known as LISI Group (Holdings) Limited) from 2005 to 2006. Mr. Yim graduated from the City Polytechnic of Hong Kong with a Bachelor degree of Accountancy. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants of the United Kingdom.

SENIOR MANAGEMENT

Mr. WONG Chi Ho | Co-President

Mr. Wong Chi Ho, aged 36, is the Co-President the Group and the director of a subsidiary of the Group. He joined the Group in July 2013. He is involved in the development of ACS's smart card and smart card reader technologies. Mr. Wong has over 8 years of engineering work experience in Silicon Valley, where he worked for Qualcomm Technologies, Inc., Nvidia Corporation, and Sun Microsystems Inc.. Mr. Wong holds a Degree of Master of Science in Management, Science and Engineering from Stanford University as well as Degrees of Bachelor (Summa Cum Laude) and Master of Science in Engineering in Electrical Engineering from the University of Michigan. Mr. Wong passed CFA level 3 exam. He is a son of Mr. Wong Yiu Chu and Ms. Tsui Kam Ling and a brother of Mr. Wong Chi Kit.

Mr. WONG Chi Kit | Co-President

Mr. Wong Chi Kit, aged 31, is the Co-President the Group and the director of a subsidiary of the Group. He joined the Group in October 2008 as the Vice President of Global Sales. Mr. Wong became the head of business development of the Group in 2013 and he is currently in charge of the Group's smart card solutions business, providing e-purse, automatic fare collection, retail and loyalty, and payment solutions. Mr. Wong graduated with a Bachelor of Arts degree with Distinction, double majoring in Psychology and Economics from the University of Michigan. He is a son of Mr. Wong Yiu Chu and Ms. Tsui Kam Ling and a brother of Mr. Wong Chi Ho.

Ms. LAI Yuen Yee | Executive Vice President

Ms. Lai Yuen Yee, aged 50, is the Executive Vice President of the Group and mainly responsible for human resources and product development. Ms. Lai joined the Group in August 2000. She is also the head of the Product Marketing Department, leading a team to focus on product management and marketing functions of the Group. She worked for Orient Overseas Container Line Ltd. for 9 years, where she started to accumulate her solid experience in sales and marketing activities for container transport services. She obtained a Bachelor of Business Administration degree from the University of East Asia, Macau.

Mr. LEUNG Tin Chak, Gilbert | Senior Vice President, Sales and Marketing

Mr. Gilbert Leung, aged 39, joined the Group in January 2002 as a Technical Marketing Engineer and was mainly responsible for handling activities of respective product lines. He is the Senior Vice President of Sales and Marketing, 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 Bachelor of Engineering and Master of Philosophy degrees in Industrial Engineering and Engineering Management from The Hong Kong University of Science and Technology.

Ms. SUEN Yu May, Sammi | Financial Controller

Ms. Sammi Suen, aged 35, joined the Group in June 2014 as the Financial Controller of the Group. Ms. Suen is responsible for the general financial planning and management and the treasury functions. Ms. Suen has over 13 years of experience in audit, finance, and accounting management through her previous financial positions with several international accounting firms and listed companies in Hong Kong. Ms. Suen obtained her Bachelor of Business Administration degree in Accounting from The Hong Kong University of Science and Technology. She is also 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 21 of this Annual Report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the rules governing dealings by directors in listed securities of the Company ("dealings rules") on terms no less exacting than the required standard of dealings as referred to in Rules 5.48 to 5.67 of the GEM Listing Rules as the codes of conduct regarding securities transactions by directors and by relevant employees as defined in the Code. Having made specific enquiry of all directors of the Company, all directors of the Company confirm that they complied with such dealings rules throughout the year ended 31 December 2014.

BOARD OF DIRECTORS

The Board comprises currently 3 executive directors, namely Mr. Wong Yiu Chu (being the chairman of the Board), Mr. Tan Keng Boon, and Ms. Tsui Kam Ling; and 3 independent non-executive directors, Mr. Lo Kar Chun, SBS, JP, Mr. Wong Yick Man, Francis, and Mr. Yim Kai Pung. Details of each director are disclosed on page 16 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 2014. 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 directors	Attended/Eligible to attend
Executive directors	
Mr. Wong Yiu Chu *(Chairman)*	4/4
Mr. Tan Keng Boon	4/4
Ms. Tsui Kam Ling	4/4
Independent non-executive directors	
Mr. Lo Kar Chun, SBS, JP (appointed on 17 March 2014)	3/3
Mr. Wong Yick Man, Francis	4/4
Mr. Yim Kai Pung (appointed on 10 June 2014)	2/2
Dr. Yip Chak Lam, Peter (retired on 21 May 2014)	2/2
Mr. Yu Man Woon (resigned on 10 June 2014)	2/2

During the year ended 31 December 2014, 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 is the spouse of Mr. Wong Yiu Chu. 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 2014 through participating in continuous professional development in the following manner:

Name of directors	Reading materials/ attending seminars in relation to corporate governance and regulatory requirements	Attending seminars/ courses/conferences to develop professional skills and knowledge
Executive directors		
Mr. Wong Yiu Chu	✓	–
Mr. Tan Keng Boon	✓	–
Ms. Tsui Kam Ling	✓	–
Independent non-executive directors		
Mr. Lo Kar Chun, SBS, JP	✓	–
Mr. Wong Yick Man, Francis	✓	–
Mr. Yim Kai Pung	✓	✓

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Wong Yiu Chu 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

The term of appointment of Mr. Wong Yick Man, Francis as the independent non-executive directors is two years commencing from 1 June 2014 to 31 May 2016.

Mr. Lo Kar Chun, 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.

Mr. Yim Kai Pung, was appointed as a new independent non-executive director on 10 June 2014 for a term of two years commencing from 10 June 2014 to 9 June 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.

BOARD OF DIRECTORS *(continued)*

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 3 members, namely Mr. Yim Kai Pung (being the chairman of the audit committee), Mr. Lo Kar Chun, SBS, JP, and Mr. Wong Yick Man, Francis.

The audit committee held four meetings during the year. Out of these four meetings, the audit committee met twice with the external auditor. Details of individual attendance of its members are set out below:

Name of directors	Attended/Eligible to attend
Independent non-executive directors	
Mr. Yim Kai Pung *(Chairman)* (appointed on 10 June 2014)	2/2
Mr. Lo Kar Chun, SBS, JP (appointed on 17 March 2014)	3/3
Mr. Wong Yick Man, Francis	4/4
Dr. Yip Chak Lam, Peter (retired on 21 May 2014)	2/2
Mr. Yu Man Woon (resigned on 10 June 2014)	2/2

BOARD COMMITTEES *(continued)*

(i) Audit Committee *(continued)*

Set out below is the summary of work performed by the audit committee during the year ended 31 December 2014:

(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 2014.

(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	5
HK$1,000,001 to HK$1,500,000	0
	5

The remuneration committee comprises 3 members, namely Mr. Lo Kar Chun, SBS, JP (being the chairman of the remuneration committee), Mr. Wong Yiu Chu and Mr. Yim Kai Pung.

BOARD COMMITTEES *(continued)*

(ii) Remuneration Committee *(continued)*

The remuneration committee held three meetings 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 directors	Attended/Eligible to attend
Independent non-executive directors	
Mr. Lo Kar Chun, SBS, JP *(Chairman)* (appointed on 17 March 2014)	1/1
Mr. Yim Kai Pung (appointed on 10 June 2014)	0/0
Dr. Yip Chak Lam, Peter (retired on 21 May 2014)	2/2
Mr. Yu Man Woon (resigned on 10 June 2014)	3/3
Executive director	
Mr. Wong Yiu Chu	3/3

(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 5 members, namely Mr. Wong Yiu Chu (being the chairman of the nomination committee), Ms. Tsui Kam Ling, Mr. Lo Kar Chun, SBS, JP, Mr. Wong Yick Man, Francis, and Mr. Yim Kai Pung.

BOARD COMMITTEES *(continued)*

(iii) Nomination Committee *(continued)*

During the year, the nomination committee held two meetings to review the structure, size, board diversity, and composition of the Board, assess the independence of independent non-executive directors, review the re-election of the retiring directors at the annual general meeting, and consider and recommend the appointment of Mr. Lo Kar Chun, SBS, JP and Mr. Yim Kai Pung as the new independent non-executive directors. Details of individual attendance of its members are set out below:

Name of directors	Attended/Eligible to attend
Executive director	
Mr. Wong Yiu Chu *(Chairman)*	2/2
Ms. Tsui Kam Ling	2/2
Independent non-executive directors	
Mr. Lo Kar Chun, SBS, JP (appointed on 17 March 2014)	1/1
Mr. Wong Yick Man, Francis	2/2
Mr. Yim Kai Pung (appointed on 10 June 2014)	0/0
Dr. Yip Chak Lam, Peter (retired on 21 May 2014)	1/1
Mr. Yu Man Woon (resigned on 10 June 2014)	2/2

(iv) Finance and Investment Committee

The finance and investment committee provide executive inputs, supervision, 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 4 members, namely Mr. Wong Yiu Chu (being the chairman of the finance and investment committee), Ms. Tsui Kam Ling, Ms. Lai Yuen Yee, and Mr. Wong Chi Ho.

During the year ended 31 December 2014, the finance and investment committee held two meetings with the presence of all the existing member of the finance and investment committee to review the purchase of business assets from Daming Wuzhou and the establishment of joint venture company in the Philippines.

BOARD COMMITTEES *(continued)*

(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 2014, 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 2014, the fee payable to the auditors in respect of audit services amounted to HK$616,000 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 39 to 40 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.

INTERNAL CONTROL *(continued)*

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 Ms. Suen Yu May, Sammi, our Finance Controller, 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.

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.

At the 2014 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 2014 annual general meeting to answer questions of shareholders. No other general meeting was held during 2014. Details of individual attendance of directors at the 2014 annual general meeting is set out below:

Name of directors	Attended/Eligible to attend
Executive directors	
Mr. Wong Yiu Chu *(Chairman)*	1/1
Mr. Tan Keng Boon	1/1
Ms. Tsui Kam Ling	1/1
Independent non-executive directors	
Mr. Lo Kar Chun, SBS, JP (appointed on 17 March 2014)	1/1
Mr. Wong Yick Man, Francis	0/1
Mr. Yim Kai Pung (appointed on 10 June 2014)	0/0
Dr. Yip Chak Lam, Peter (retired on 21 May 2014)	1/1
Mr. Yu Man Woon (resigned on 10 June 2014)	1/1

CONSTITUTIONAL DOCUMENTS

During the year, there is no change in the Company's constitutional documents.

ENVIRONMENTAL PROTECTION

The Group is committed to create a business that contributes to global efforts in environmental care and sustainability. For almost a decade, all ACS devices in the market have been compliant with the requirements laid down in the directive restricting the use of certain hazardous substances in electrical and electronic equipment, commonly referred to as the Restriction of Hazardous Substances ("RoHS") Directive. This directive restricts the use of six hazardous materials in manufacturing various types of electronic and electrical equipment. It covers all domestically made and imported products in the European Union ("EU"), with a few exemptions given on certain occasions.

For the past ten years, the Group has also been taking steps to comply with the EU's new regulation on the registration, evaluation, authorization, and restriction of chemical substances, more commonly known as REACH. REACH aims to improve the protection of human health and the environment through better and earlier identification of the intrinsic properties of chemical substances. The benefits of the REACH system are expected to come gradually, with more substances increasingly being phased into REACH.

Aside from eliminating hazardous substances from our manufacturing process, the Group has also taken on the task of recovering and recycling smart card readers worldwide. Guided by the RoHS Directive 2002/96/EC, also known as the directive on Waste Electrical and Electronic Equipment ("WEEE"), the Group has partnered with certain institutions to fulfil product take-back obligations. The WEEE directive lays down the legitimate treatment for recovering and recycling electronic waste; it aims to reduce the environmental impact of companies, which are in the business of producing and deploying electric and electronic products.

The Group's technology offerings also promote environmental sustainability by reducing the waste associated with a wide-range of business activities. The Group's smart card technologies and cloud-based enterprise collaboration solutions help improve business operations, reducing unneeded paper-based communications and processes. Furthermore, cashless transactions facilitated by the Group's electronic payment solutions and in particular its AFC solutions are also contributing to global efforts to reduce waste and paper consumption.

The aforementioned AFC solutions, in particular, provide governments and transportation authorities around the world with an important technology that encourages increased use of sustainable public transportation and reduce air pollution and greenhouse gas emissions from private cars. Private vehicle – the largest contributor (55%) to a household's carbon footprint – can be reduced once commuters make the switch to public transportation. Public transportation is estimated to reduce CO2 emissions by 37 million metric tons annually. Additionally, it saves fuel, reduces an individual's carbon footprint, and reduces congestion. As commuters, transport operators as well as government and authorities benefit from the effects of a successful implementation of AFC and electronic purse payment solutions, public transportation will be more accessible, more efficient, and overall a better experience.

EMPLOYEE DEVELOPMENT AND WELFARE

The Group values its employees and pays attention to their development. In 2014, the Group arranged more than 130 training sessions on industry information, internal system, product, and soft skills to employees under various departments. Moreover, plenty of staff activities were organized for employees located in different regions, including annual dinner, Christmas party, leisure trip, sports competition, team-building activity, birthday party, and so on. The sense of belonging of employees was enhanced and they have strong bonding with each other.

Company Annual Dinner in Hong Kong

Basketball Competition in Zhuhai

Company Trip to the Ancient Town of Fenghuang

Team Building Activity Held in Montemar Beach Club, Philippines

CHARITY AND SOCIAL RESPONSIBILITY

The Group is also devoted to charity work and aims to do good to the society at the same time as its business grows.

Since 2011, the Group has been participating in the Orbis World Sight Day Campaign and called for donations from employees to support fighting blindness in developing countries. In March 2014, the Group also organized a team to participate in the New Territories Walk of The Community Chest at Stonecutters Bridge to support 29 member social agencies of the Chest in enhancing "Children and Youth Services".

Besides, employees in Manila visited patients who suffered from cancer in the Philippine General Hospital and Child Haus Foundation in December 2014. Donations were also made to help cancer patients by buying them drugs and other needed items.

"Thank You" Certificate of Orbis World Sight Day 2014

Outreach in Manila to Visit Cancer Patients

SUPPORTING HONG KONG'S TECHNOLOGY RESEARCH AND DEVELOPMENT

In recent years, while many companies in Hong Kong, technology companies in particular, have gradually moved their operations to the PRC, eyeing the PRC's extensive talent pool and large market, the Group has kept a sizable operation in Hong Kong to support the development of technology in industry and offer job opportunities to engineer in Hong Kong.

The Group hires more than 360 employees in Hong Kong, the PRC and the Philippines, with a strong focus on technology research and development with more than 60% of the Group's staff members holding at least one technical degree. A similar percentage is found even at the Group's headquarters in Hong Kong.

With a relatively small local technology sector, overshadowed by strong-performing finance, properties, logistics, and services sectors, employers and employees focused on technology are increasingly difficult to find. The Group's efforts in changing this phenomenon are two-fold. Firstly, the Group continues to hire and groom technical staff members locally. Secondly, the Group works with local universities by providing recruitment talks, knowledge sharing sessions, as well as Final Year Project collaboration opportunities amongst students, professors, and the Group's technical staff members.

The Group believes that as a technology-intensive, home-grown company in the technology research and development sector, it should continue to hire and groom technical staff in Hong Kong. These openings vary in terms of emphasis on technical knowledge, but with regular and on-the-job trainings as well as interactions with other technical staff members, new hires may have a challenging yet satisfying career path in technology research and development.

In 2014, the Group received the Technological Achievement Award in 2014 Hong Kong Awards for Industries, where entries are evaluated based on excellence, value of intellectual property, contribution to society, and market recognition. This award is a recognition of the Group's contribution to the smart card reader industry and continuous support in research and development industry in Hong Kong in past years.

Ms. Fanny Law GBS, JP, Chairperson of HKSTP presented the Technological Achievement Award to ACS's representative, Mr. Gilbert Leung and visited ACS's booth.

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 2014.

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 17 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	21%	–
Five largest customers in aggregate	49%	–
The largest supplier	–	13%
Five largest suppliers in aggregate	–	41%

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 2014 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 41 to 111.

The directors have recommended the payment of a final dividend of HK2.0 cents (2013: HK2.0 cents) per share for the year ended 31 December 2014. Subject to approval by the shareholders at the forthcoming annual general meeting on 29 April 2015, the final dividend will be paid on Wednesday, 20 May 2015 to shareholders whose names appear on the register of members of the Company on Friday, 8 May 2015.

CLOSURE OF REGISTER OF MEMBERS

(i) Entitlement to Attend and Vote at the 2015 Annual General Meeting

The register of members will be closed from Friday, 24 April 2015 to Wednesday, 29 April 2015, 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, 23 April 2015.

(ii) Entitlement to the Proposed Final Dividend

The register of members will be closed from Wednesday, 6 May 2015 to Friday, 8 May 2015, 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, 5 May 2015.

RESERVES

Profit for the year of HK$23,724,000 (2013: HK$23,203,000) 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 46–47 and note 31 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

Details of the movements in share capital of the Company during the year are set out in note 29 to the financial statements.

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
Mr. Tan Keng Boon
Ms. Tsui Kam Ling

Independent Non-executive Directors
Mr. Lo Kar Chun, SBS, JP (appointed on 17 March 2014)
Mr. Wong Yick Man, Francis
Mr. Yim Kai Pung (appointed on 10 June 2014)
Dr. Yip Chak Lam, Peter (retired on 21 May 2014)
Mr. Yu Man Woon (resigned on 10 June 2014)

In accordance with Article 95 of the Company's Articles of Association, Mr. Yim Kai Pung, 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, Mr. Wong Yiu Chu and Mr. Wong Yick Man, Francis will retire by rotation at the forthcoming annual general meeting. Mr. Wong Yiu Chu will, being eligible, offer himself for re-election. Mr. Wong Yick Man, Francis who does not offer himself for re-election due to his wish to devote more time to voluntary social services and will retire at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

The executive directors, Mr. Wong Yiu Chu, Mr. Tan Keng Boon, and Ms. Tsui Kam Ling, have entered into service agreements with the Company which were renewed for further two years from 27 October 2014 to 26 October 2016. 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.

Mr. Wong Yick Man, Francis was re-appointed by the board of directors as the independent non-executive directors for a term of two years commencing from 1 June 2014 to 31 May 2016.

Mr. Lo Kar Chun, 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.

Mr. Yim Kai Pung, was appointed by the board of directors as the independent non-executive director for a term of two years commencing from 10 June 2014 to 9 June 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 2014, 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 directors	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 2014
Executive Directors						
Mr. Wong Yiu Chu (Note 2)	80,768,000	56,930,522	–	–	137,698,522	48.48%
Ms. Tsui Kam Ling (Note 3)	56,930,522	80,768,000	–	–	137,698,522	48.48%
Mr. Tan Keng Boon	157,893	–	–	–	157,893	0.06%
Independent Non-executive Directors						
Mr. Lo Kar Chun, SBS, JP	400,000	–	–	–	400,000	0.14%

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 personally and 56,930,522 shares are held by his wife, Ms. Tsui Kam Ling personally. Mr. Wong Yiu Chu is taken to be interested in the shares held by Ms. Tsui Kam Ling under the SFO.

3 56,930,522 shares are held by Ms. Tsui Kam Ling personally and 80,768,000 shares are held by her husband, Mr. Wong Yiu Chu personally. Ms. Tsui Kam Ling is taken to be interested in the shares held by Mr. Wong Yiu Chu 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 2014, 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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

Save as 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 not been notified of any interests in the Company's issued shares as at 31 December 2014 as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

Save as disclosed above, as at 31 December 2014 and to the best knowledge of the directors, there was no person 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$35.3 million and the details are set out in note 26 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 112 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.

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 2014 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
Chairman

Hong Kong, 27 February 2015

INDEPENDENT AUDITOR'S REPORT

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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 41 to 111, which comprise the consolidated and company statements of financial position as at 31 December 2014, 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 2014, 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, 27 February 2015



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Notes	2014 *HK$'000*	2013 *HK$'000*
Revenue	6	**246,323**	194,360
Cost of sales and services provided		**(124,466)**	(81,340)
Gross profit		**121,857**	113,020
Other income and gains	7	**1,392**	975
Selling and distribution costs		**(20,712)**	(19,218)
Research and development expenses		**(37,895)**	(32,498)
Administrative expenses		**(37,246)**	(34,292)
Finance costs	8	**(612)**	(759)
Share of results of a joint venture		**(205)**	–
Profit before income tax	9	**26,579**	27,228
Income tax expense	10	**(2,855)**	(4,025)
Profit for the year, attributable to owners of the Company		**23,724**	23,203
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss			
– Exchange (loss)/gain on translation of financial statements of foreign operations		**(559)**	820
Items that will not be reclassified subsequently to profit or loss			
– Remeasurement of defined benefit obligations		**(491)**	63
– Income tax relating to defined benefit obligations		**147**	48
Other comprehensive income for the year, net of tax		**(903)**	931
Total comprehensive income for the year, attributable to owners of the Company		**22,821**	24,134
Earnings per share for profit attributable to owners of the Company for the year	13		
– Basic (HK cents)		**8.352**	8.168
– Diluted (HK cents)		**8.352**	8.168

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Plant and equipment	16	**7,763**	7,238
Intangible assets	18	**42,875**	32,260
Goodwill	19	**1,972**	–
Interests in a joint venture	20	**2,512**	–
Prepayment	33	**377**	–
Deferred tax assets	27	**915**	593
		56,414	40,091
Current assets			
Inventories	21	**40,118**	44,094
Trade and other receivables, prepayments and deposits paid	22	**54,129**	31,784
Held-to-maturity financial assets	23	**69**	71
Current tax assets		**986**	–
Cash and cash equivalents	24	**35,671**	48,614
		130,973	124,563
Current liabilities			
Trade payables, accruals and deposits received	25	**30,819**	26,566
Bank borrowings, secured	26	**35,336**	36,341
Current tax liabilities		**1,758**	1,028
		67,913	63,935
Net current assets		**63,060**	60,628
Total assets less current liabilities		**119,474**	100,719
Non-current liabilities			
Deferred tax liabilities	27	**1,650**	511
Defined benefit obligations	28	**737**	261
		2,387	772
Net assets		**117,087**	99,947
EQUITY ATTRIBUTABLE TO COMPANY'S OWNERS			
Share capital	29	**28,406**	28,406
Reserves	31	**88,681**	71,541
Total equity		**117,087**	99,947

On behalf of the Board

WONG Yiu Chu	TSUI Kam Ling
Chairman	*Director*

STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Notes	**2014**	2013
		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	**46,456**	42,741
Prepayments	22	**324**	202
Cash and cash equivalents	24	**148**	284
		46,928	43,227
Current liabilities			
Accruals	25	**283**	283
Net current assets		**46,645**	42,944
Net assets/Total assets less current liabilities		**60,649**	56,948
EQUITY			
Share capital	29	**28,406**	28,406
Reserves	31	**32,243**	28,542
Total equity		**60,649**	56,948

On behalf of the Board

WONG Yiu Chu	TSUI Kam Ling
Chairman	*Director*

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Notes	2014	2013
		HK$'000	*HK$'000*
Cash flows from operating activities			
Profit before income tax		26,579	27,228
Adjustments for:			
Amortisation of intangible assets	9	9,735	8,237
Depreciation of plant and equipment	9	4,369	4,804
Finance costs	8	612	759
Impairment losses on trade receivables	9	446	2
Impairment losses on other receivables	9	–	66
Interest income	7	(213)	(419)
Net loss on disposals of plant and equipment	9	19	211
Share of results of a joint venture		205	–
Write-down of inventories	9	657	1,087
Operating profit before working capital changes		42,409	41,975
Decrease/(Increase) in inventories		5,152	(10,410)
Increase in trade and other receivables, prepayments and deposits paid		(20,890)	(11,990)
Decrease in trade payables, accruals and deposits received		(1,511)	(1,310)
(Decrease)/Increase in defined benefit obligations		(8)	86
Cash generated from operations		25,152	18,351
Income tax paid		(3,267)	(7,273)
Net cash generated from operating activities		21,885	11,078
Cash flows from investing activities			
Capital contribution to a joint venture		(2,717)	–
Expenditure on development projects capitalised		(15,172)	(11,186)
Interest received		276	352
Payment to acquire business, net of cash acquired	32	(3,165)	–
Proceeds from disposals of plant and equipment		104	17
Payment for purchases of available-for-sale financial assets		(377)	–
Purchases of plant and equipment		(5,009)	(2,662)
Purchases of held-to-maturity financial assets		–	(35)
Net cash used in investing activities		(26,060)	(13,514)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Notes	2014	2013
		HK$'000	*HK$'000*
Cash flows from financing activities			
Dividend paid		(5,681)	(4,261)
Finance costs paid		(1,339)	(759)
Proceeds from new borrowings		19,232	30,000
Repayments of borrowings		(20,237)	(7,877)
Net cash (used in)/generated from financing activities		(8,025)	17,103
Net (decrease)/increase in cash and cash equivalents		(12,200)	14,667
Cash and cash equivalents as at 1 January		48,614	34,223
Effect of foreign exchange rate changes, on cash held		(743)	(276)
Cash and cash equivalents as at 31 December	24	35,671	48,614

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Attributable to owners of the Company						
	Share capital *HK$'000* (note 29)	Share premium* *HK$'000* (note 31)	Merger reserve* *HK$'000* (note 31)	Translation reserve* *HK$'000*	Retained profits* *HK$'000*	Proposed dividend* *HK$'000*	Total *HK$'000*
Balance as at 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)
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 and 1 January 2014	28,406	17,955	4,496	1,706	41,703	5,681	99,947
Dividend approved in respect of previous year	–	–	–	–	–	(5,681)	(5,681)
Transactions with owners	–	–	–	–	–	(5,681)	(5,681)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	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 29)	(note 31)	(note 31)				
Profit for the year	–	–	–	–	23,724	–	23,724
Other comprehensive income							
– Exchange loss on translation of financial statements of foreign operations	–	–	–	(559)	–	–	(559)
– Remeasurement of defined benefit obligations	–	–	–	–	(491)	–	(491)
– Income tax relating to defined benefit obligations	–	–	–	–	147	–	147
	–	–	–	(559)	(344)	–	(903)
Total comprehensive income for the year	–	–	–	(559)	23,380	–	22,821
2014 final dividend proposed (note 12)	–	–	–	–	(5,681)	5,681	–
Balance as at 31 December 2014	28,406	17,955	4,496	1,147	59,402	5,681	117,087

* These reserve accounts comprise the consolidated reserves of HK$88,681,000 (2013: HK$71,541,000) in the consolidated statement of financial position as at 31 December 2014.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

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 41 to 111 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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Business combination and 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.

Acquisition of businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

2.3 Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it has power over the investee, exposure, or rights, to variable returns from its involvement with the investee and the ability to affect those returns through its power over the investee. 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. Control is reassessed when facts and circumstances indicated that there are changes to one or more of the elements of control.

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 Joint ventures

A joint venture is a joint arrangement whereby the Group and other parties that have joint control of the arrangement have rights to the net assets of the arrangement. A joint arrangement is a contractual arrangement gives the Group and other parties joint control of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

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

2.4 Joint ventures *(continued)*

In consolidated financial statements, joint ventures are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amounts are adjusted for the Group's share of the post-acquisition change in the joint ventures' net assets except that losses in excess of the Group's interest in the joint ventures are not recognised unless the Group has incurred legal or constructive obligations to make good those losses. The Group's share of the post-acquisition, post-tax results of the investees, including any impairment losses on the investments in joint ventures for the year, are recognised in profit or loss, whereas the Group's share of the post-acquisition, post-tax items of the investees' other comprehensive income are recognised in other comprehensive income of the Group.

Unrealised profits and losses resulting from transactions between the Group and its joint ventures are recognised only to the extent of unrelated investors' interests in the joint ventures. The investor's share in the joint venture's profits and losses resulting from these transactions is eliminated against the carrying value of the joint venture, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are immediately recognised in profit or loss.

Where the joint venture uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made to conform the joint venture's accounting policies to those of the Group when the joint venture's financial statements are used by the Group in applying the equity method.

2.5 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.

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.

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

2.5 Foreign currency translation *(continued)*

Any goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation on or after 1 January 2015 are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are also 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.

2.6 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%
Motor vehicles	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)*

2.7 Goodwill

Goodwill represents the excess of the aggregate of the fair value of the consideration transferred over the net fair value of the acquiree's identifiable assets and liabilities measured at the acquisition date.

When the net fair value of the acquiree's identifiable assets and liabilities exceed the fair value of the consideration transferred, the excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill arising from business combination is allocated to each of the relevant cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested at least annually for impairment (see note 2.18).

2.8 Intangible assets (other than goodwill)

Intangible assets acquired separately or in a business combination

Intangible assets acquired separately are measured initially at cost. The cost of intangible assets acquired in a business combination is its fair value at the acquisition date. After initial recognition, an intangible asset with finite useful lives shall be carried at its cost less any accumulated amortisation and any accumulated impairment losses.

Internally-generated intangible assets (Research and development expenditures)

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

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

2.8 Intangible assets (other than goodwill) *(continued)*

Amortisation of intangible assets

Amortisation of intangible assets with finite useful lives is provided on straight-line method over their estimated useful lives. The estimated useful lives of the intangible assets are as follows:

Customer relationships	7 years
Technical know-how	4 years
Development costs	4 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.

2.9 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 financial assets are recognised initially, they are measured at their fair value, plus directly attributable transaction costs.

Subsequent to initial recognition, held-to-maturity investments and loans and receivables 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.

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

2.9 Financial assets *(continued)*

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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.10 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.

2.11 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.

2.12 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 2.21).

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.

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

2.12 Financial liabilities *(continued)*

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.

2.13 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 2.15 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.

2.14 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)*

2.15 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.

2.16 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.

2.17 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)*

2.18 Impairment of non-financial assets

The Group's plant and equipment, goodwill, other intangible assets, interests in joint ventures and the Company's investments in subsidiaries are subject to impairment testing. Goodwill and other 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 of disposal 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 or group of 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. Goodwill in particular is allocated to those CGUs that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose. 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 losses recognised for CGUs, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss recognised for CGUs is charged pro-rata to the other assets in the CGU, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal, or value-in-use, if measureable.

An impairment loss on goodwill is not reversed in subsequent periods. An impairment loss in respect of other assets is reversed if there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased, 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.

After the recognition of an impairment loss, the depreciation or amortisation for the asset are adjusted to allocate the asset's revised carrying amount, less its residual value, if any.

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

2.19 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.

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).

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

2.19 Employee benefits *(continued)*

Defined benefit retirement plan (continued)

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.

2.20 Share-based compensation

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

<u>Share options granted after 7 November 2002 and had vested before 1 January 2005</u>

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.

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

2.20 Share-based compensation *(continued)*

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.

2.21 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.

2.22 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.

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

2.22 Accounting for income taxes *(continued)*

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

Deferred tax assets and liabilities are not recognised if the temporary differences arise from goodwill or 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 and joint ventures, 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.

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.

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

2.22 Accounting for income taxes *(continued)*

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.

2.23 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 share of results of joint ventures and 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 interests in joint ventures and 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.

2.24 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 of 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.

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

2.24 Related parties *(continued)*

(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 2014

In the current year, the Group has applied the new standards, amendments and interpretations (the "new HKFRSs") issued by the HKICPA, which are effective for the Group's financial statements for the annual period beginning on 1 January 2014.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27, Investment Entities

The Group has applied the amendments to HKFRS 10, HKFRS 12 and HKAS 27, Investment Entities, for the first time in the current year. The amendments to HKFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements. Consequential amendments have been made to HKFRS 12 and HKAS 27 to introduce new disclosure requirements for investment entities.

As the Company is not an investment entity, the application of the amendments has had no impact on the disclosures or the amount recognised in the Group's consolidated and Company's financial statements.

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

3.1 New or amended HKFRSs effective for annual period beginning on or after 1 January 2014 *(continued)*

Amendments to HKAS 32, Offsetting Financial Assets and Financial Liabilities

The Group has applied the amendments to HKAS 32, Offsetting Financial Assets and Financial Liabilities, for the first time in the current year. The amendments to HKAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments have been applied retrospectively. As the Group does not have any material financial assets and financial liabilities that qualify for offset, the application of the amendment has had no impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

Amendments to HKAS 36, Recoverable Amount Disclosure for Non-Financial Assets

The Group has applied the amendments to HKAS 36, Recoverable Amount Disclosure for Non-Financial Assets, for the first time in the current year. The amendments to HKAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit ("CGU") to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation technique used which are in line with the disclosure required by HKFRS 13, Fair Value Measurements.

The application of these amendments has had no material impact on the disclosures in the Group's consolidated financial statements.

HKAS 39, Novation of Derivatives and Continuation of Hedge Accounting

The Group had applied the amendments to HKAS 39, Novation of Derivatives and Continuation of Hedge Accounting for the first time in the current year. The amendments to HKAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designed as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.

The amendments have been applied retrospectively. As the Group does not have any derivatives that are subject to novation, the application of these amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

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

3.1 New or amended HKFRSs effective for annual period beginning on or after 1 January 2014 *(continued)*

HK(IFRIC)-Int 21, Levies

The Group has applied HK(IFRIC)-Int 21, Levies for the first time in the current year. HK(IFRIC)-Int 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by the legislation. The interpretation also provides guidance on how different levy arrangements should be accounted for.

HK(IFRIC)-Int 21 has been applied retrospectively. The application of this interpretation has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

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

HKFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in October 2010 to introduce requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in July 2014 mainly to include (a) impairment requirements for financial assets and (b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" ("FVTOCI") measurement category for certain simple debt instruments.

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

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

HKFRS 9, Financial Instruments (continued)

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39, Financial Instruments: Recognition and Measurement are required for be subsequently measured at amortised cost or fair value. Specifically, debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of the subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of the subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment in other comprehensive income, with only dividend income generally recognised in profit or loss.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of financial liability that is attributable to change in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss is presented in profit or loss.

In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss models, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transaction eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principal of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's management activities have also been introduced.

HKFRS 9 will be effective for accounting period beginning on or after 1 January 2018. The directors of the Company anticipate that the application of HKFRS 9 in the future may have a material impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide reasonable estimate of the effect of HKFRS 9 until the Group undertakes a detailed review.

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

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

HKFRS 15, Revenue from Contracts with Customers

HKFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition.

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Furthermore, extensive disclosures are required by HKFRS 15.

HKFRS 15 will be effective for accounting period beginning on or after 1 January 2017. The directors of the Company anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

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.

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.

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

(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 intangible assets

The Group depreciates its plant and equipment and amortises intangible assets in accordance with the accounting policies stated in notes 2.6 and 2.8. The estimated useful lives reflect the directors' estimates of the period that the Group will derive future economic benefits from the use of these assets. Management reassesses the estimated useful lives at the reporting date.

(v) Impairment of goodwill and intangible assets

Determining whether the goodwill and intangible assets 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 goodwill and intangible assets 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.

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

(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.

(ix) Purchase price allocation for business combination

Accounting for business combination require the Group to allocate the cost of acquisition to specific assets acquired and liabilities assumed based on their estimated fair value at the date of acquisition. In connection with the business combination during the reporting period, the Group has undertaken a process to identify all assets and liabilities acquired. Judgements made in determining the estimated fair value assigned to each class of assets acquired and liabilities assumed could materially impact the calculation of goodwill and depreciation and amortisation charges of acquired assets in subsequent periods.

Estimated fair values are based on information available near the acquisition date and on expectations and assumptions that have been deemed reasonable by management.

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.

	2014	2013
	HK$'000	*HK$'000*
Revenue from external customers and reportable segment revenue	246,323	194,360
Reportable segment profit	28,202	28,257
Share of results of a joint venture	(205)	–
Unallocated corporate expenses	(1,418)	(1,029)
Consolidated profit before income tax	26,579	27,228
Reportable segment assets	182,650	163,859
Interests in a joint venture	2,512	–
Deferred tax assets	915	593
Current tax assets	986	–
Unallocated corporate assets	324	202
Consolidated assets	187,387	164,654
Reportable segment liabilities	66,609	62,885
Current tax liabilities	1,758	1,028
Deferred tax liabilities	1,650	511
Unallocated corporate liabilities	283	283
Consolidated liabilities	70,300	64,707
Other segment information		
Depreciation and amortisation of non-financial assets*	14,104	13,041
Impairment losses on trade receivables	446	2
Impairment losses on other receivables	–	66
Interest expense	612	759
Interest income	(213)	(419)
Research and development expenses*	37,895	32,498
Write-down of inventories	657	1,087
Additions to non-current assets	25,347	13,848

* Included in research and development expenses is amortisation of development costs of HK$9,315,000 (2013: HK$8,237,000), 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, goodwill, intangible assets and interests in a joint venture ("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, the location of the operations, in the case of interests in a joint venture and the location of the operation to which they are allocated, in the case of goodwill and intangible assets. 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	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
PRC, including Hong Kong and Macau (domicile)#	**29,707**	24,893	**51,000**	37,494
Foreign countries				
– United States	**32,572**	35,920	**31**	46
– Italy	**31,346**	29,222	**–**	–
– Republic of the Philippines	**52,927**	27,155	**3,321**	619
– Other countries	**99,771**	77,170	**770**	1,339
	216,616	169,467	**4,122**	2,004
	246,323	194,360	**55,122**	39,498

\# 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".

5. SEGMENT INFORMATION *(continued)*

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 2014 and 2013, revenue derived from these customers, including sales to entities which are known to the Group to be under common control, are as follows:

	2014	2013
	HK$'000	*HK$'000*
Customer A*	**31,329**	29,206
Customer B*	**1,208**	1,740
Customer C#	**N/A**	29,093
Customer D	**51,367**	26,388

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

\# Revenue attributable to this customer for the year ended 31 December 2014 is less than 10% of the Group's revenue.

6. REVENUE

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

	2014	2013
	HK$'000	*HK$'000*
Sale of smart card products, software and hardware	**245,529**	194,124
Smart card related services	**794**	236
	246,323	194,360

7. OTHER INCOME AND GAINS

	2014	2013
	HK$'000	*HK$'000*
Interest income on financial assets not at fair value through profit or loss	**213**	419
Sundry income	**1,179**	556
	1,392	975

8. FINANCE COSTS

	2014	2013
	HK$'000	*HK$'000*
Interest charges on bank borrowings, repayable on demand or wholly within five years	1,339	759
Less: Amount capitalised into development costs	(727)	–
	612	759
Interest rate of borrowing costs capitalised	3–4%	N/A

9. PROFIT BEFORE INCOME TAX

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

	2014	2013
	HK$'000	*HK$'000*
Amortisation of intangible assets		
– Included in research and development expenses	9,315	8,237
– Included in administrative expenses	420	–
Amount recognised in profit or loss	9,735	8,237
Auditors' remuneration		
– Audit services	616	492
– Non-audit services	–	–
	616	492
Cost of inventories recognised as expense, including:	122,705	80,667
– Write-down of inventories	657	1,087
Depreciation of plant and equipment	4,369	4,804
Impairment losses on trade receivables	446	2
Impairment losses on other receivables	–	66
Minimum lease payments	4,663	4,108
Less: Amount capitalised into development costs	(159)	(140)
Amount recognised in profit or loss	4,504	3,968
Net foreign exchange loss	2,433	1,411
Net loss on disposals of plant and equipment	19	211

10. INCOME TAX EXPENSE

Income tax recognised in profit or loss

	2014	2013
	HK$'000	*HK$'000*
Current tax		
Hong Kong profits tax		
– Provision for current year	2,541	3,865
– Under provision in respect of prior years	28	–
	2,569	3,865
Philippines Income Tax		
– Provision for current year	628	722
– (Over)/Under provision in respect of prior years	(86)	5
	542	727
Other overseas tax		
– Provision for current year	117	196
– Over provision in respect of prior years	(192)	–
	(75)	196
	3,036	4,788
Deferred tax (note 27)	(181)	(763)
Total income tax expense	2,855	4,025

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits for the year.

Philippines Income Tax has been provided at 30% (2013: 30%) on the estimated taxable income or 2% (2013: 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.

Taxation for subsidiaries operating in the PRC is calculated at the prevailing tax rates based on existing legislation, interpretations and practices in respect thereof. Logyi Limited, a subsidiary of the Company, is entitled to two years exemption and three years half-deduction tax holiday policy started from 2013, accordingly, it is exempted from Enterprise Income Tax in both 2013 and 2014.

Tax on other jurisdictions including Japan 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.

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:

	2014 HK$'000	2013 HK$'000
Profit before income tax	**26,579**	27,228
Notional tax at the applicable tax rates	**4,187**	4,488
Tax effect of non-deductible expenses	**391**	262
Tax effect of non-taxable revenue	**(55)**	(69)
Tax effect of unused tax loss not recognised	**111**	16
Tax effect of prior years' unrecognised tax losses utilised this year	**(1,283)**	(1,108)
Tax effect of temporary differences not recognised	**522**	436
Tax effect of tax exemption from tax holiday	**(743)**	–
(Over)/ Under provision in respect of prior years	**(250)**	5
Other differences	**(25)**	(5)
Income tax expense	**2,855**	4,025

Income tax recognised in other comprehensive income

	2014 HK$'000	2013 HK$'000
Deferred tax (note 27)	**(147)**	(48)
	(147)	(48)

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Of the consolidated profit attributable to the owners of the Company of HK$23,724,000 (2013: HK$23,203,000), a profit of HK$9,382,000 (2013: HK$7,971,000) has been dealt with in the financial statements of the Company.

12. DIVIDENDS

Dividends attributable to the year:

	2014	2013
	HK$'000	*HK$'000*
Proposed final dividend of HK2.0 cents (2013: HK2.0 cents) per ordinary share	**5,681**	5,681

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:

	2014	2013
	HK$'000	*HK$'000*
Final dividend in respect of the previous year, approved and paid during the year of HK2.0 cents (2013: HK1.5 cents) per ordinary share	**5,681**	4,261

13. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2014 is based on profit attributable to owners of the Company of HK$23,724,000 and weighted average of 284,058,000 ordinary shares in issue during the year.

Diluted earnings per share for the year ended 31 December 2014 are the same as basic earnings per share as there is no dilutive potential ordinary share.

The calculation of basic earnings per share for the year ended 31 December 2013 is based on profit attributable to owners of the Company of HK$23,203,000 and weighted average of 284,058,000 ordinary shares in issue during that year.

The calculation of diluted earnings per share for the year ended 31 December 2013 is based on profit attributable to owners of the Company of HK$23,203,000 and the weighted average of 284,059,000 ordinary shares outstanding during that 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 for the year ended 31 December 2013 is calculated based on the weighted average of 284,058,000 ordinary shares in issue during that year as used in the calculation of basic earnings per share plus the weighted average of 1,000 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)

	2014 *HK$'000*	2013 *HK$'000*
Wages and salaries	**64,857**	54,745
Contribution to defined contribution retirement plans	**3,194**	2,558
Expenses recognised in respect of defined benefit retirement plan (note 28)	**114**	112
Total employee benefit expense	**68,165**	57,415
Less: Amount capitalised into development costs	**(12,966)**	(9,670)
Amount recognised in profit or loss	**55,199**	47,745

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 (2013: 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*
<u>2014</u>					
Executive directors					
– Mr. Wong Yiu Chu	–	1,800	–	–	1,800
– Mr. Tan Keng Boon	–	1,049	–	17	1,066
– Ms. Tsui Kam Ling	–	1,080	–	17	1,097
Independent non-executive directors					
– Dr. Yip Chak Kam, Peter (note (i))	47	–	–	–	47
– Mr. Yu Man Woon (note (ii))	53	–	–	–	53
– Mr. Wong Yick Man, Francis	120	–	–	–	120
– Mr. Lo Kar Chun (note (iii))	95	–	–	–	95
– Mr. Yim Kai Pung (note (iv))	67	–	–	–	67
	382	3,929	–	34	4,345

15. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS *(continued)*

(a) Directors' emoluments *(continued)*

	Directors' fee	Salaries, allowances and other benefits in kind	Discretionary bonuses*	Retirement scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2013					
Executive directors					
– Mr. Wong Yiu Chu	–	1,710	214	–	1,924
– Mr. Tan Keng Boon	–	998	124	15	1,137
– Ms. Tsui Kam Ling	–	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

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

Notes:

(i) retired as an independent non-executive director with effect from 21 May 2014

(ii) resigned as an independent non-executive director with effect from 10 June 2014

(iii) appointed as an independent non-executive director with effect from 17 March 2014

(iv) appointed as an independent non-executive director with effect from 10 June 2014

15. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS *(continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included three (2013: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2013: two) individuals during the year are as follows:

	2014	2013
	HK$'000	*HK$'000*
Salaries and other emoluments	1,704	1,526
Discretionary bonuses	–	443
Retirement scheme contributions	34	30
	1,738	1,999

The emoluments of these remaining two (2013: two) highest paid individuals fell within the following bands:

	2014	2013
	HK$'000	*HK$'000*
Nil to HK$1,000,000	2	1
HK$1,000,001 to HK$1,500,000	–	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*	Motor vehicles *HK$'000*	Total *HK$'000*
At 1 January 2013						
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
Year ended 31 December 2014						
Opening net carrying amount	274	298	4,517	2,149	–	7,238
Additions	67	67	2,512	1,396	967	5,009
Acquired through business combination (note 32)	–	–	46	–	–	46
Disposals	–	(1)	(107)	(15)	–	(123)
Depreciation	(333)	(136)	(2,439)	(1,342)	(119)	(4,369)
Exchange difference	(2)	(4)	(26)	–	(6)	(38)
Closing net carrying amount	6	224	4,503	2,188	842	7,763
At 31 December 2014						
Cost	2,837	1,593	18,044	9,800	960	33,234
Accumulated depreciation	(2,831)	(1,369)	(13,541)	(7,612)	(118)	(25,471)
Net carrying amount	6	224	4,503	2,188	842	7,763

17. INTERESTS IN SUBSIDIARIES – COMPANY

	2014	2013
	HK$'000	*HK$'000*
Unlisted investments, at cost	**14,004**	14,004
Amount due from a subsidiary	**46,456**	42,741

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

Particulars of the principal subsidiaries as at 31 December 2014 are as follows:

Name	Place of incorporation/ establishment and kind of legal entity	Particulars of issued shares/ registered capital	Percentage of issued shares/registered capital attributable to the Company		Principal activities and place of operations
			Directly	Indirectly	
Advanced Card Systems Limited	Hong Kong, limited liability company	Ordinary shares of HK$18,000,000^	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 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	Ordinary share of HK$1^	100	–	Development, sales and distribution of smart card products, software and hardware and the provision of smart card related services in the Republic of Philippines

17. INTERESTS IN SUBSIDIARIES – COMPANY *(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	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	Ordinary share of HK$1^	100	–	Investment holding
TaptoPay Limited	Hong Kong, limited liability company	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

^ under Section 135 of the Hong Kong Companies Ordinance (Cap. 622), which came into effect on 3 March 2014, shares in a Hong Kong incorporated company do not have nominal value and the concept of the requirement for authorised share capital is abolished. Such no nominal value regime applies to subsidiaries of the Company incorporated in Hong Kong.

18. INTANGIBLE ASSETS – GROUP

	Development costs *HK$'000*	Customer relationships *HK$'000*	Technical know-how *HK$'000*	Total *HK$'000*
At 1 January 2013				
Gross carrying amount	56,866	–	–	56,866
Accumulated amortisation and impairment losses	(27,555)	–	–	(27,555)
Net carrying amount	29,311	–	–	29,311
Year ended 31 December 2013				
Opening net carrying amount	29,311	–	–	29,311
Capitalised during the year	11,186	–	–	11,186
Amortisation charge	(8,237)	–	–	(8,237)
Closing net carrying amount	32,260	–	–	32,260
At 31 December 2013				
Gross carrying amount	68,052	–	–	68,052
Accumulated amortisation and impairment losses	(35,792)	–	–	(35,792)
Net carrying amount	32,260	–	–	32,260
Year ended 31 December 2014				
Opening net carrying amount	32,260	–	–	32,260
Acquired through business combination (note 32)	–	2,470	1,923	4,393
Capitalised during the year	15,899	–	–	15,899
Amortisation charge	(9,315)	(178)	(242)	(9,735)
Exchange difference	–	33	25	58
Closing net carrying amount	38,844	2,325	1,706	42,875
At 31 December 2014				
Gross carrying amount	83,951	2,503	1,950	88,404
Accumulated amortisation and impairment losses	(45,107)	(178)	(244)	(45,529)
Net carrying amount	38,844	2,325	1,706	42,875

19. GOODWILL – GROUP

	2014	2013
	HK$'000	*HK$'000*
At 1 January		
Gross and net carrying amount	–	–
Year ended 31 December		
Opening net carrying amount	–	–
Additions through business combination (note 32)	1,946	–
Exchange difference	26	–
Closing net carrying amount	1,972	–
At 31 December		
Gross and net carrying amount	1,972	–

For the purpose of impairment testing, the carrying amount of goodwill is allocated to the CGU of development, sales and distribution of smart-card products, software and hardware and the provision of smart card related services.

Recoverable amount for the CGU was determined based on value-in-use calculations covering a detailed three-year budget plan followed by an extrapolation of expected cash flows at the growth rates stated below. The growth rates reflect the long-term average growth rates for the product lines of the CGU. The key assumptions used for value in use calculations were as follows:

	2014
Growth rates	3–4%
Discount rate	18.8%

The key assumptions also include stable profit margins, which have been determined based on past performance. The discount rates used are pre-tax and reflect specific risks relating to the relevant segment. Apart from the considerations described in determining the value in use of the CGU above, the Group's management is not currently aware of any other probable changes that would necessitate changes in its key estimates.

20. INTERESTS IN A JOINT VENTURE – GROUP

	2014	2013
	HK$'000	*HK$'000*
Unlisted investment, at cost	2,717	–
Share of post-acquisition results and other comprehensive income	(205)	–
	2,512	–

Particulars of the joint venture as at 31 December 2014 are as follows:

Name	Country of incorporation and operation	Particulars of issued shares	Percentage of interest held by the Group	Principal activity
Goldpac ACS Technologies Inc. ("GATI")	Republic of Philippines	87,500 ordinary shares of 100 Pesos each	45	Card personalisation business in the Republic of Philippines

GATI was established by the Group with two other investors in the current year to expand its smart card business in the Republic of Philippines and is an unlisted corporate entity whose quoted market price is not available. The entity was classified as joint venture of the Group because the Group does not have control over its significant financial and operating policies and unanimous consent with another equity holder is required for any major financial and operating decisions.

The following table illustrates the financial information of GATI, extracted from its unaudited management accounts:

	2014
	HK$'000
Cash and cash equivalents	3,696
Other current assets	1,572
Current assets	5,268
Non-current assets	6,871
Current liabilities	(4,960)
Non-current liabilities	(1,596)
Net assets	5,583

20. INTERESTS IN A JOINT VENTURE – GROUP *(continued)*

	2014
	HK$'000
Revenue, excluding interest income	–
Interest income	1
Depreciation and amortisation	(23)
Other expenses	(433)
Loss from continuing operations and total comprehensive income	(455)
Percentage of interests held by the Group	45%
Group's share of results in joint venture for the year recognised in the consolidated profit or loss	(205)

No dividend was received from GATI during the year ended 31 December 2014 (2013: Not applicable). GATI also did not have any financial liabilities other than trade and other payables as at 31 December 2014 and did not incur any interest and income tax expense for the year (2013: Not applicable).

Reconciliation of the above financial information of GATI to the carrying amount of the interests in joint venture recognised in the consolidated financial statements:

	2014
	HK$'000
Net assets of the joint venture	5,583
Percentage of interests held by the Group	45%
Group's share of net assets in the joint venture recognised in the consolidated statement of financial position	2,512

21. INVENTORIES – GROUP

	2014	2013
	HK$'000	*HK$'000*
Raw materials	21,642	25,664
Work-in-progress	1,370	1,346
Finished goods	17,106	17,084
	40,118	44,094

22. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS PAID

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade receivables	**47,089**	27,571	**–**	–
Less: Provision for impairment losses	**(685)**	(239)	**–**	–
Trade receivables – net	**46,404**	27,332	**–**	–
Other receivables	**4,487**	1,240	**–**	–
Prepayments	**1,792**	1,950	**324**	202
Deposits paid	**1,510**	1,328	**–**	–
Less: Provision for impairment losses	**(64)**	(66)	**–**	–
	54,129	31,784	**324**	202

Customers are generally granted credit terms of 7 to 90 (2013: 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:

	2014	2013
	HK$'000	*HK$'000*
0–30 days	**24,199**	15,437
31–60 days	**10,283**	2,943
61–90 days	**1,528**	26
91–365 days	**9,743**	7,022
Over 365 days	**651**	1,904
	46,404	27,332

At each reporting date, the Group reviewed receivables for evidence of impairment on both an individual and collective basis. As at 31 December 2014, the Group determined trade receivables of HK$685,000 (2013: HK$239,000) and other receivables of HK$64,000 (2013: HK$66,000) as individually impaired. Based on this assessment, impairment losses of HK$446,000 (2013: HK$2,000) are recognised for trade receivables and none (2013: HK$66,000) are recognised for other receivables for the year ended 31 December 2014. 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.

22. 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	
	2014	2013	**2014**	2013
	HK\$'000	*HK\$'000*	***HK\$'000***	*HK\$'000*
At 1 January	**239**	239	**66**	–
Impairment losses recognised	**446**	2	**–**	66
Exchange differences	**–**	–	**(2)**	–
Amount written off	**–**	(2)	**–**	–
At 31 December	**685**	239	**64**	66

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

	2014	2013
	HK\$'000	*HK\$'000*
Not yet past due	**25,739**	15,212
1–90 days past due	**13,103**	9,682
91–180 days past due	**463**	171
181–365 days past due	**7,009**	391
Past due more than 365 days	**90**	1,876
	46,404	27,332

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 2014 and 2013, the Group did not hold any collateral in respect of trade receivables that were past due but not impaired.

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

Included in the other receivables is an amount due from the joint venture of HK$1,189,000 (2013: Not applicable). Except for the balance of HK$64,000 (2013: HK$66,000) which have been impaired individually, the remaining other receivables of HK$4,423,000 (2013: HK$1,174,000) were neither past due nor impaired.

23. HELD-TO-MATURITY FINANCIAL ASSETS – GROUP

	2014	2013
	HK$'000	*HK$'000*
Treasury bills, at amortised cost	69	71

Treasury bills are listed outside Hong Kong, have a fixed yield of 1.050% (2013: 1.050%) per annum and will be matured on 7 January 2015 (2013: 5 February 2014). The market value of these held-to-maturity financial assets is HK$69,000 (2013: HK$71,000).

24. CASH AND CASH EQUIVALENTS

	Group		Company	
	2014	2013	2014	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash at banks and on hand	35,203	35,996	148	284
Time deposits	468	12,618	–	–
	35,671	48,614	148	284

Time deposits earn interest at 4.75% (2013: 1.25–4.75%) per annum and have an original maturity of 3 (2013: 1 to 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 2014 are deposits of HK$6,972,000 (2013: HK$13,090,000) 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 2014 (2013: Nil).

25. TRADE PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables	**14,981**	11,841	**–**	–
Accruals	**8,206**	8,356	**283**	283
Deposits received	**4,487**	6,369	**–**	–
Consideration payables in connection with business combination (note 32)	**3,145**	–	**–**	–
	30,819	26,566	**283**	283

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

	2014	2013
	HK$'000	*HK$'000*
0–30 days	**8,401**	8,661
31–60 days	**5,694**	2,640
61–90 days	**388**	323
91–365 days	**141**	52
Over 365 days	**357**	165
	14,981	11,841

26. BANK BORROWINGS, SECURED – GROUP

	2014	2013
	HK$'000	*HK$'000*
Revolving loans	**12,992**	–
Term loans	**22,344**	36,341
	35,336	36,341

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

26. BANK BORROWINGS, SECURED – GROUP *(continued)*

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

	2014	2013
	HK$'000	*HK$'000*
Within one year	**26,356**	13,997
In the second year	**8,980**	13,364
In the third to fifth year	**–**	8,980
	35,336	36,341

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 2014, 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.

27. 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	Defined benefit obligations	Customer relationships	Technical know-how	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 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 and 1 January 2014	511	(118)	–	–	(475)	(82)
Arising from business combination (note 32)	11	–	618	481	–	1,110
Charged/(Credited) to profit or loss (note 10)	120	5	(45)	(61)	(200)	(181)
Credited to other comprehensive income (note 10)	–	(147)	–	–	–	(147)
Exchange difference	–	4	8	7	16	35
At 31 December 2014	642	(256)	581	427	(659)	735

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

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

	2014 *HK$'000*	2013 *HK$'000*
Deferred tax assets recognised in the consolidated statement of financial position	**(915)**	(593)
Deferred tax liabilities recognised in the consolidated statement of financial position	**1,650**	511
Net deferred tax liabilities/(assets)	**735**	(82)

The Group has unrecognised estimated tax losses of HK$8,828,000 (2013: HK$16,008,000) to carry forward against future taxable income. Tax losses of HK$8,384,000 (2013: HK$16,008,000) 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 2014, certain subsidiaries operating in the PRC had unrecognised tax losses of HK$444,000 (2013: Nil) 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.

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 2014, temporary differences arising from the undistributed profits of subsidiaries amounted to HK$4,139,000 (2013: HK$842,000). Deferred tax liabilities of HK$414,000 (2013: HK$84,000) have not been recognised as the Company controls the dividend policy of these subsidiaries and it is probable that these profits will not be distributed in the foreseeable future.

28. 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$173,000 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:

	2014	2013
	HK$'000	*HK$'000*
Service costs – Current service costs	101	98
Net interest on net defined benefit obligations	13	14
Amount recognised in administrative expenses (note 14)	114	112
Remeasurement on net liability arising from defined benefit obligations		
Return on plan assets, excluding interest income	14	(3)
Actuarial losses/(gain) arising from changes in financial assumptions	477	(60)
Amount recognised in other comprehensive income	491	(63)
Total defined benefit costs	605	49

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

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:

	2014	2013
	HK$'000	*HK$'000*
Present value of funded defined benefit obligations	1,140	568
Fair value of plan assets	(403)	(307)
Net liability arising from defined benefit obligations	737	261

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:

	2014	2013
	HK$'000	*HK$'000*
Unit investment trust funds	403	307

Movements in the fair value of plan assets and the present value of defined benefit obligations are as follows:

	2014	2013
	HK$'000	*HK$'000*
Fair value of plan assets		
At 1 January	307	253
Interest income	22	15
Return on plan assets, excluding interest income	(14)	3
Contributions from the Group	121	74
Benefits paid by the plan	(19)	(23)
Exchange difference	(14)	(15)
At 31 December	403	307

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

	2014	2013
	HK$'000	*HK$'000*
Present value of defined benefit obligations		
At 1 January	**568**	556
Interest cost	**35**	29
Actuarial losses/(gain) arising from changes in financial assumptions	**477**	(60)
Current service costs	**101**	98
Benefits paid by the plan	**(19)**	(23)
Exchange difference	**(22)**	(32)
At 31 December	**1,140**	568

94.0% of the benefits are vested at the end of the reporting period (2013: 95.0%). The weighted average duration of the defined benefit obligations at the end of the reporting period is 18.3 (2013: 15.0) years.

The most recent actuarial valuation of the present value of the defined benefit obligations was carried out at 31 December 2014 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, 36% of the Group's obligations under the defined benefit plan are covered by the plan assets held by the trustee (2013: 54%). The shortfall of HK$737,000 (2013: HK$261,000) is to be cleared over the estimated remaining service period. The principal assumptions used for the purpose of the actuarial valuations are as follows:

	2014	2013
Discount rate	**4.46%**	6.38%
Future salary increase	**5.00%**	5.00%
Withdrawal rate	**55%**	55%
Normal retirement age	**60**	60
Average age for current members	**27.6**	27.5

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").

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

	2014		2013	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Discount rate	**(155)**	**183**	(78)	92
Future salary increase	**169**	**(147)**	87	(75)
Withdrawal rate	**9**	**9**	(4)	5

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 2014.

29. SHARE CAPITAL

	2014		2013	
	Number of shares		Number of shares	
	'000	*HK$'000*	'000	*HK$'000*
Ordinary shares of HK$0.10 each				
Authorised:				
At 1 January and 31 December	**1,000,000**	**100,000**	1,000,000	100,000
Issued and fully paid:				
At 1 January and 31 December	**284,058**	**28,406**	284,058	28,406

30. 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.

30. SHARE-BASED COMPENSATION *(continued)*

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.

No share option under the Scheme were granted or exercised during the year ended 31 December 2014, nor remained outstanding as at 31 December 2014. The number of share options outstanding during the year ended 31 December 2013 and the related terms and conditions of the grants are as follows:

		Number of share options						
	Grant date	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

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.

31. RESERVES

Company

	Share premium *HK$'000*	Retained profits *HK$'000*	Proposed dividend *HK$'000*	Total *HK$'000*
Balance as at 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 and 1 January 2014	17,955	4,906	5,681	28,542
Dividend approved in respect of previous year	–	–	(5,681)	(5,681)
Transaction with owners	–	–	(5,681)	(5,681)
Profit for the year	–	9,382	–	9,382
Other comprehensive income for the year	–	–	–	–
Total comprehensive income for the year	–	9,382	–	9,382
2014 final dividend proposed (note 12)	–	(5,681)	5,681	–
Balance as at 31 December 2014	17,955	8,607	5,681	32,243

31. RESERVES *(continued)*

Company *(continued)*

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

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

Group

The amount of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 46 to 47 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.

32. BUSINESS COMBINATION

In June 2014, the Group entered into two agreements with independent third parties to purchase certain business assets from Shenzhen Daming Wuzhou City Smart Card Technology Company Limited ("Daming Wuzhou") (referred to as the "Acquisition") for a total cash consideration of RMB5,300,000 (equivalent to approximately HK$6,577,000), the acquisition was completed on 19 June 2014.

32. BUSINESS COMBINATION *(continued)*

The principal activities of Daming Wuzhou are the development and provision of products and solutions for automatic revenue collection in the PRC. The Acquisition represents an opportunity to expand the Group's automatic revenue collection business in the PRC. The fair value of the identifiable assets and liabilities of Daming Wuzhou acquired as at the date of Acquisition, the goodwill arising thereof as well as the net cash flow on the Acquisition were as follows:

	HK$'000	*HK$'000*
Fair value of identifiable net assets acquired		
Plant and equipment	46	
Intangible assets (note (a))	4,393	
Inventories	1,933	
Trade and other receivables, prepayments and deposits paid (note (b))	2,629	
Cash and cash equivalents	267	
Trade payables, accruals and deposits received	(3,527)	
Deferred tax liabilities	(1,110)	
		4,631
Goodwill (note (c))		1,946
Cash consideration		6,577
Cash consideration		6,577
Less: Consideration payables (note 25)		(3,145)
Less: Cash and cash equivalents acquired		(267)
Cash outflow on Acquisition		3,165

Notes:

(a) The intangible assets comprised technical know-how and customer relationships which fair value are HK$1,923,000 and HK$2,470,000 respectively as at the date of Acquisition.

(b) The receivables acquired principally comprised trade receivables. Fair value of trade and other receivables of HK$2,629,000 had gross contractual amounts of HK$5,300,000 and the best estimate at the acquisition date of the contractual cash flows not expected to be collected is HK$2,671,000.

(c) Goodwill arose in the Acquisition because the cost included amounts in relation to the benefit of future market development in the PRC, assembled workforce and expected synergies. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria of identifiable intangible assets. None of the goodwill arising from on the Acquisition is expected to be deductible for tax purposes.

32. BUSINESS COMBINATION *(continued)*

Notes: *(continued)*

(d) The Group incurred acquisition-related costs of HK$411,000 relating to external legal fees and other professional fees. The legal and professional fees have been included in "Administrative expenses" of the Group's consolidated statement of comprehensive income.

(e) Since the date of Acquisition to the reporting date, Daming Wuzhou contributed revenue of HK$3,656,000. Had the Acquisition taken place at the beginning of the year, there would have been no significant impact on the Group's revenue and profit for the year. These pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of Daming Wuzhou that actually would have been achieved had the Acquisition been completed at the beginning of the year, nor is it intended to be a projection of future results.

(f) The Group, Mr. Wong Yiu Chu, an executive director of the Company, and equityholder of Daming Wuzhou had also entered into a guarantee agreement in connection with the Acquisition. Under the guarantee agreement, if there are any economic, legal, labour or tax disputes of Daming Wuzhou (the "Liabilities") due to the transfer of business assets during the period of 18 months from the completion date of the Acquisition (which can be extended to 24 months, subject to the completion of transfer of business assets), Mr. Wong Yiu Chu, shall be jointly liable for the Liabilities in the event of non-fulfilment by the Group of its obligation with respect to the Liabilities.

33. COMMITMENTS

Capital commitments

At the reporting date, the commitments in respect of capital expenditures are as follows:

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Contracted but not provided for in respect of acquisition of an investment to be classified under available-for-sale financial assets	**881**	–	**–**	–

In June 2014, the Group entered into an agreement with an independent third party to acquire 10% equity interests of Zigong Yandou Smart Card Information Technology Company Limited for a consideration of RMB1,000,000 (equivalent to approximately HK$1,241,000). At 31 December 2014, the Group paid deposit of RMB300,000 (equivalents to approximately HK$377,000), which was included in "Prepayment" within non-current assets, and the remaining RMB700,000 (equivalent to approximately HK$881,000) represents "Capital commitment".

33. COMMITMENTS *(continued)*

Operating lease commitments

The Group leases a number of properties under operating lease arrangements. Leases are negotiated for terms of one to three years (2013: 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	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**3,663**	2,540	**–**	–
In the second to fifth years, inclusive	**2,091**	442	**–**	–
	5,754	2,982	**–**	–

34. 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	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Salaries and other short-term employee benefits	**7,884**	8,277	**382**	360
Retirement benefits costs	**117**	106	**–**	–
	8,001	8,383	**382**	360

At 31 December 2014, the Company has given corporate guarantees to the banks to the extent of HK$75,539,000 (2013: HK$73,667,000) for certain banking facilities granted to 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.

35. 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.

35.1 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	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets				
Loans and receivables				
– Trade receivables	**46,404**	27,332	**–**	–
– Other receivables	**4,423**	1,174	**–**	–
– Cash and cash equivalents	**35,671**	48,614	**148**	284
– Amount due from a subsidiary	**–**	–	**46,456**	42,741
	86,498	77,120	**46,604**	43,025
Held-to-maturity financial assets	**69**	71	**–**	–
	86,567	77,191	**46,604**	43,025
Financial liabilities				
At amortised cost				
– Trade payables	**14,981**	11,841	**–**	–
– Accruals and other payables	**11,351**	8,356	**283**	283
– Bank borrowings	**35,336**	36,341	**–**	–
	61,668	56,538	**283**	283

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

35.2 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.

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 2014			
Trade receivables	8,968	16,563	–
Other receivables	24	924	–
Cash and cash equivalents	333	10,586	2,134
Trade payables and accruals	(213)	(5,070)	(4,890)
Net exposure	9,112	23,003	(2,756)

	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

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

35.2 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 2014			
Cash and cash equivalents	–	100	–
Accruals	–	(6)	–
Net exposure	–	94	–

	Expressed in HK$'000		
	EURO	US$	RMB
As at 31 December 2013			
Cash and cash equivalents	–	179	–
Accruals	–	(6)	–
Net exposure	–	173	–

At 31 December 2014, 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$211,000 (2013: HK$416,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of EURO and RMB. As HK$ 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 2013.

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

35.3 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 2014, if interest rates had increased/decreased by 0.5% (2013: 0.5%), with all other variables held constant, the Group's profit after income tax for the year would decrease by approximately HK$13,000 (2013: HK$7,000)/increase by approximately HK$13,000 (2013: HK$7,000). 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 2013.

35.4 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$75,539,000 (2013: HK$73,667,000).

Credit risk for trade receivables is concentrated as 22% (2013: 27%) 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.

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

35.5 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 risk.

Analysed below is the Group's remaining contractual maturities for its financial liabilities as at 31 December 2014 and 2013. 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 2014			
Trade payables	**14,981**	–	–
Accruals and other payables	**11,351**	–	–
Bank borrowings*	**35,336**	–	–
	61,668	–	–
At 31 December 2013			
Trade payables	11,841	–	–
Accruals and other payables	8,356	–	–
Bank borrowings*	36,341	–	–
	56,538	–	–

* 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 2014, the aggregate undiscounted principal amounts of these financial liabilities amounted to HK$36,129,000 (2013: HK$38,163,000).

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

35.5 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	Between 1 and 2 years	Between 2 and 5 years
	HK$'000	*HK$'000*	*HK$'000*
At 31 December 2014			
Bank borrowings	26,988	9,141	–
At 31 December 2013			
Bank borrowings	15,081	13,941	9,141

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 2014 and 2013 (notes 26(i) and 34), 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.

35.6 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.

36. 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 26, and equity attributable to owners of the Company, comprising issued share capital disclosed in note 29 and reserves as disclosed in note 31 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 26. The externally imposed capital requirements have been complied with by the Group for the years ended 31 December 2014 and 2013.

37. APPROVAL OF FINANCIAL STATEMENTS

The financial statements for the year ended 31 December 2014 were approved and authorised for issue by the board of directors on 27 February 2015.

  

FINANCIAL SUMMARY

31 December 2014

	2014	2013	2012	2011	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
RESULTS					
Revenue	**246,323**	194,360	160,855	117,488	93,729
Cost of sales and services provided	**124,466**	81,340	74,009	57,043	43,086
Gross profit	**121,857**	113,020	86,846	60,445	50,643
Gross profit margin	**49%**	58%	54%	51%	54%
Profit for the year	**23,724**	23,203	16,874	5,119	4,434
Net profit margin	**10%**	12%	10%	4%	5%
ASSETS AND LIABILITIES					
Total assets	**187,387**	164,654	127,864	108,018	81,741
Total liabilities	**70,300**	64,707	47,790	45,053	24,301
Total equity	**117,087**	99,947	80,074	62,965	57,440