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:* 2086

# Card & Reader Technologies






# Annual Report 2016

* *For identification only*

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# CORPORATE INFORMATION

## DIRECTORS

*Executive Directors*
Mr. Peng Fang *(Chairman)*
*(appointed on 31 March 2017)*
Mr. Cui Yijun *(appointed on 31 March 2017)*
Mr. Wang Hao *(appointed on 31 March 2017)*
Mr. Wong Chi Ho *(Co-Chief Executive Officer)*
Mr. Tan Keng Boon *(retired on 20 May 2016)*
Ms. Tsui Kam Ling *(resigned on 31 March 2017)*
Mr. Wong Chi Kit *(resigned on 31 March 2017)*

*Independent Non-executive Directors*
Ms. Kaung Cheng Xi Dawn
Mr. Yim Kai Pung
Mr. Lo Kar Chun, SBS, JP
*(resigned with effect from 1 April 2017)*

## AUTHORISED REPRESENTATIVES

Mr. Wong Chi Ho
Ms. Lee Ka Man, ACS, ACIS

## COMPANY SECRETARY

Ms. Lee Ka Man, ACS, ACIS

## COMPLIANCE OFFICER

Mr. Wong Chi Ho

## AUDIT COMMITTEE

Mr. Yim Kai Pung *(Chairman)*
Ms. Kaung Cheng Xi Dawn

## REMUNERATION COMMITTEE

Ms. Kaung Cheng Xi Dawn *(Chairman)*
Mr. Wong Chi Ho
Mr. Yim Kai Pung

## NOMINATION COMMITTEE

Mr. Yim Kai Pung *(Chaiman)*
Ms. Kaung Cheng Xi Dawn
Mr. Wong Chi Ho

## AUDITOR

KPMG
*Certified Public Accountants*
8th Floor, Prince's Building
10 Chater Road, Central
Hong Kong

## REGISTERED OFFICE

P.O. Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

## HEAD OFFICE & PRINCIPAL PLACE OF BUSINESS

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

## PRINCIPAL BANKERS

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

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## COMPANY'S WEBSITE ADDRESS

www.acs.com.hk

## STOCK CODE

2086

# CHAIRMAN'S STATEMENT

On behalf of Advanced Card Systems Holdings Limited (the "Company", together with its subsidiaries, the "Group"), I hereby present the Group's annual results for the year ended 31 December 2016 (the "Year").

During the Year, the Group witnessed a conservative smart card and smart card reader market, which was dragged by the global economic slowdown. Despite the challenges, the Group strived to move forward by persistent efforts in research & development, expansion of new products and markets as well as business networking. The Group maintained a gross profit margin at around 50%.

The Group's market presence and contributions have been constantly acknowledged by the global industry. The Company was honored with 2016 ACT Canada IVIE Awards 'International Payment Innovation Benefitting Citizens', Best Solution Prize in Golden Pine Award 2015 and RFID Successful Application Award in 2015 IOT Excellence Awards. Such recognition will motivate us to pursue higher innovative technology for the good of citizens.

In January 2017, the Group underwent a reorganisation of its shareholder structure with the introduction of HNA Group Co., Ltd.* ("HNA Group", 海航集團有限公司), a PRC-based Fortune Global 500 conglomerate encompassing various businesses. Upon the shareholding restructure, the Group has become an indirect subsidiary of HNA EcoTech Group Co., Ltd.* (海航生態科技集團有限公司), the eco-technology flagship of HNA Group Co., Ltd.

Founded in 1995, the Group is one of the world's leading smart card reader suppliers and has succeeded in expanding its End-to-End solution market in recent years. We believe the new shareholder will further enhance the Group's highly recognised marketing capabilities, by bringing abundant resources in its expertise, capital and other aspects. The synergies and opportunities created are not only beneficial to the Group's business development, but also to people, society and environment as a whole.

Leveraging the strong shareholder support and our technical know-how in the smart solutions, the Group is dedicated to creating "Smart Digital Living" in this Big Data Era The Smart Digital Living is comprised of 5 key facets, namely Smart People (identity and e-authentication), Smart Government, Smart Payment, Smart Transport and Smart Mobility, offering a wide variety of targeted products and solutions.

We are keen to change the presence and shape the future as cashless society with high mobility and convenience. We will apply innovative ideas on information and communications technology and big data analytics, to connect and integrate the systems and services of the city for better synergy and more efficient use of resources in view of cities management, service delivery as well as quality of life of citizens. And at the same time reducing environmental footprint to support the development of innovation and low-carbon economy.

* *For identification purposes only*

# CHAIRMAN'S STATEMENT

Going forward, we will proactively develop new products and solutions of payment, identification and e-authentication for individuals, enterprises and governments. Especially in the payment segment, the Group will integrate various payment platforms, develop diverse payment methods and strengthen payment solutions. Based on our solid foundation and experience, together with the alliance of new shareholder, we are confident of future growth and expansion to Mainland China & overseas markets.

Last but not least, I would like to take this opportunity to extend my utmost gratitude to our valuable shareholders, customers and business partners for their continued trust to the Group. I look forward to working with our dedicated management and staff to achieve brilliant results in the future.

PENG Fang
*Chairman*

31 March 2017

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

For the year ended 31 December 2016, the Group's revenue decreased by 35% to HK$152 million (2015: HK$235 million) and resulted in a loss for the year that amounted to HK$19 million (2015: profit for the year of HK$20 million). For the first half of 2016, the Group recorded a loss for the period of HK$20 million, while for the second half of 2016, sales performance improved significantly (increased by 64% compared with first half of 2016). Result of restructuring and cost control was satisfactory such that total expenses decreased by 15% compared with the first half of 2016. In the second half of 2016, the Group turned around and recorded a profit that amounted to HK$1 million. The basic loss per share for the Year was HK6.268 cents (2015: earnings of HK6.963 cents (restated)).

### Revenue

The Group's sales revenue for the year ended 31 December 2016 decreased by 35% compared to the previous year. The decrease in revenue is mainly due to the global economic downturn. Many customers became cautious of significant capital spending under such an economic environment that many new projects or large orders were postponed or even put on hold.

In addition, United States dollars ("US$") appreciated against Euros ("EUR") and Philippine Pesos ("PHP") in 2016, which seriously affected some of our major customers located in Europe and the Philippines. As a result, sales to the largest and top five customers dropped by 65% and 55% respectively, which is even larger than the decrease in total sales.

The decrease in total revenue for the year ended 31 December 2016 of HK$83 million was mainly due to the decrease in revenue in the first half of 2016, which amounted to around HK$49 million. Sales performance for the second half of 2016 improved significantly from HK$58 million for the first half of 2016 to HK$94 million. Although the global economic downturn affected many customers, the Group continued to seize market opportunities by investing in research and development of new products, including new smart card-related products for banking and payment sectors. The launching of these new products in 2017 may bring positive impact to our sales of these product lines.

### Maintain Stable Margin

The Group maintained its gross profit margin at around 50% in both 2016 and 2015 (2016: 49%, 2015: 50%). Gross profit for 2016 decreased by 36% compared to the previous year (2016: HK$74 million, 2015: HK$116 million) as a result of the decrease in revenue.

### Payment of Life Insurance Benefit

Payment of benefit amounting to US$1,300,000 (equivalent to HK$10,140,000) under the life insurance policy for the late Mr. Wong Yiu Chu, who was a non-executive director of the Company ("Director") and the Honorary Chairman of the board of directors (the "Board") prior to his passing away, was received on 22 May 2015, as disclosed in the Company's announcements dated 14 and 26 May 2015. The amount was one-off in nature that no such other income was recorded for the year ended 31 December 2016.

## FINANCIAL REVIEW *(continued)*

### Restructuring and Impairment

Total expenses for 2016 decreased by 9% compared to the previous year (2016: HK$93 million; 2015: HK$103 million). Such decrease is the combined result of restructuring and cost control. Decrease in expenses mainly contributed by the decrease in staff costs (2016: HK$49 million; 2015: HK$56 million), resulted in decreased research and development expenses. In 2016, the Group was restructured to consolidate certain research and development functions to Shenzhen from other locations (the "Restructuring"), to enhance operations and improve efficiency. The Restructuring was completed in 2016 and successfully lowered staff cost and office overheads for 2016.

In addition, in 2015, the Group incurred approximately HK$3 million in professional fees and donations in relation to the transfer listing from Growth Enterprise Market to the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Such expenses were non-recurring and no such administrative expenses were recorded for the year ended 31 December 2016. Selling and distribution costs also decreased in 2016 as a result of the decrease in sales.

Impairment losses on trade and other receivables and intangible assets amounting to HK$3 million and HK$2 million respectively were recognised for the year ended 31 December 2016. Significant impairment on trade receivables was provided in June 2016 upon the Restructuring, because some low-margin projects were terminated due to resource reallocation, and management considered outstanding balances for these projects unlikely to be recovered. Impairment for intangible assets was mainly for development costs, as some existing models will be replaced by new models, and management expected sales of these existing models will not be enough to cover their carrying value. Thus, provision for impairment was made accordingly.

### Statement of Financial Position

Plant and equipment and intangible assets decreased from HK$6 million and HK$47 million as at 31 December 2015, to HK$5 million and HK$45 million as at 31 December 2016, respectively. The decrease was a combined result of the impairment and depreciation or amortisation.

The inventories decreased from HK$35 million as at 31 December 2015 to HK$30 million as at 31 December 2016. Due to the decrease in large orders, management intentionally controlled inventory balances during 2016 by avoiding stocking up on parts and finished goods.

Trade and other receivables decreased significantly from HK$78 million as at 31 December 2015 to HK$57 million as at 31 December 2016. The decrease was mainly attributable to the decrease in trade receivables by HK$24 million, which is in line with the decrease in sales.

Trade and other payables decreased from HK$35 million as at 31 December 2015 to HK$19 million as at 31 December 2016. This was mainly attributable to the decrease in trade payable by HK$12 million as a result of the decrease in purchases and subcontracting charges, as reflected in cost of sales.

## FINANCIAL REVIEW *(continued)*

### Statement of Financial Position *(continued)*

Bank loans and overdrafts decreased from HK$44 million as at 31 December 2015 to HK$14 million as at 31 December 2016. The Company conducted a rights issue during 2016 and received net proceeds of HK$39 million. In addition, the Group generated over HK$11 million cash from operating activities in 2016, and this surplus cash was used to repay some bank loans during 2016 in order to reduce finance cost.

## DIVIDEND

The Board did not recommend payment of the final dividend (2015: HK1.0 cent per share, totalling HK$2.8 million), for the year ended 31 December 2016.

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

## BUSINESS REVIEW

In 2016, the global economic environment was uncertain. Economists have described global demand for products and services as subdued, and predict recovery in 2017 to be similarly moderate, which affected the Group's sales in 2016. In response to these circumstances, the Group has pursued measures to be able to weather continued downturn, and continued pursuing business growth. Among measures undertaken by the Group are: the Restructuring and the development of new products for promising markets.

### Global Economic Downturn

Global economic growth slowed to 3.1% in 2016, marking the seventh year of moderate growth since the world economy emerged from recession. Infrastructure investment, for example, which covers key Group market segments like transportation, energy, and connectivity (among others), is facing a global shortfall of US$1 trillion against demand of US$3.7 trillion. This downturn has especially affected developed economies, such as those in Europe and the United States.

Furthermore, economic downturn was compounded by volatile political conditions, which have affected regions where the Group holds strategic accounts. In 2016, the European Union experienced Brexit, and the US underwent its presidential elections, slowing down a number of projects. The Philippines similarly underwent its national elections, putting on pause projects with the public sector.

Present economic circumstances were reflected in the Group's sales in 2016. However, the Group has reasons for optimism. Aside from recent focus among key governments away from budget deficits and towards economic recovery, studies have shown that infrastructure investment, which, as mentioned, covers key Group market segments, is proving not only to be attractive but inevitable. Public sectors are expected to start paying more attention to fundamentals such as better communications, connectivity and efficiency solutions, in the name of recovery. Persistently low interest rates, while not a guarantee, also provide an incentive for private organisations to resume taking on projects that will require the Group's technologies. The Group has also determined specific markets ripe for entry, to be discussed in the Prospects section of this document.

## BUSINESS REVIEW *(continued)*

### Restructuring

The Restructuring was initiated in the second quarter of 2016 and completed in the last quarter of 2016. The Group closed its office in Guangzhou and considerably scaled down office operations in Zhuhai. The Restructuring involved the departure of staff and the termination of lease agreements. As a result of the Restructuring, the Group recorded a non-recurring loss of approximately HK$4 million for the year ended 31 December 2016, including termination and redundancy payments to staff of approximately HK$3 million, and disposal loss on plant and equipment of approximately HK$1 million.

50 headcount was reduced as a result of the Restructuring. As at 31 December 2016, the Group had 190 employees, over 50% of them are in Engineering. The Restructuring resulted in increased overall efficiency and increased productivity per head. The Group has equipped its personnel for challenges arising from this measure through, among other things, knowledge-sharing and training – consistent features of the Group's workplaces prior to and after the Restructuring.

On a related note to the Restructuring, the Group has also shifted its focus to higher potential projects. For example, it has shifted support and development resources in greater favor of larger or higher-margin projects and terminated support to some small projects. The Group also decreased product lines to shift development resources towards a more optimal mix after careful study.

### Trusted Relationships with Distributors, Suppliers and Subcontractors

To strengthen vital relationships with different stakeholders, the Group nurtures longstanding relationships with trusted distributors, suppliers and subcontractors. The Group has been working with trusted suppliers and subcontractors for years to secure stable, timely and quality supply and subcontracting work. The Group continues to provide quality products, backed by major and international certifications, to maintain trusted relationships with customers and also distributors.

### Development of New Products for Promising Markets

The Group is developing new products, not only to serve its existing markets, but also to make inroads into new ones. These new markets will be described further in the Prospects section of this document. Marking its entry into new markets, the Group has released new devices across its different product lines.

*Smart Cards and Smart Card Operating Systems – ACOSJ Java Card*

In 2015, the Group reported development of the ACOSJ series, in line with its entry into the Java card market. In 2016, the ACOS Java Card was launched. The ACOS Java Card or ACOSJ provides a secure platform for rapid application development of many value-adding applets, including e-banking, e-payment, loyalty, e-government, and public key infrastructure. It has a fast read/write speed, is highly durable, and can house multiple secure applications. It comes in contact, contactless and dual interface options.

It is certified compliant with GlobalPlatform specifications, in addition to its compliance with various other major international standards: Java Card 3.0.4 Classic, Mapping Guidelines v1.0.1, CC EAL5+ (chip level), EMVCo (chip level). ACOSJ is also undergoing certification to be more competitive for banking applications.

## BUSINESS REVIEW *(continued)*

### Development of New Products for Promising Markets *(continued)*

***Mobile Card Readers-ACR1255U-J1 Secure Bluetooth® NFC Smart Card Reader***

ACR1255U-J1 combines 13.56 MHz contactless technology and Bluetooth® Smart (also known as Bluetooth® Low Energy or BLE) connectivity, to facilitate contactless transactions without a physical connection to a terminal.

ACR1255U-J1 was designed to cater to the recent shift of users from the desktop to the mobile platform. Using Bluetooth® wireless technology, ACR1255U-J1 can connect to devices running on Android™ 4.3 and above, iOS 5.0 and above, Windows® operating system, and Mac OS®. The highly portable ACR1255U-J1 supports ISO 14443 Type A and B smart cards, MIFARE, FeliCa, and ISO 18092-compliant NFC tags and devices which is more convenient for applications of access control, e-Purse and loyalty.

This Bluetooth® Smart device runs off a compact and rechargeable Lithium-ion battery for extended periods, and still has a communication range similar to classic Bluetooth®. Aside from its Bluetooth® Smart interface, this mobile card reader also has a USB 2.0 full speed interface in PC-linked mode. It is USB firmware upgradeable, making it easily adaptable to evolving technology scenarios.

### Rights Issue

The Company conducted a rights issue during 2016 in order to increase the capital base of the Group and strengthen the financial position of the Group in the face of the global economic downturn, details of which are set out in the rights issue prospectus of the Company dated 21 October 2016.

The rights issue raised additional funds for development of new products and for operational use without incurring further debts and interests arising from additional borrowings. The Company recorded net proceeds of HK$38.5 million from the rights issue. Approximately HK$22 million was assigned for development of Java cards and related payment applications, Electronic Fund Transfer at Point-of-sale (“EFT-POS”) banking payment terminals and new products for the AFC and ITS markets. Approximately HK$16.5 million was used for general working capital purposes.

### Change in Controlling Shareholder

On 9 January 2017, HNA EcoTech Pioneer Acquisition (“HNA EcoTech”) entered into a Sale and Purchase Agreement to acquire 61.39% shareholding of the Company. The transaction was completed on 13 January 2017 and HNA EcoTech became controlling shareholder of the Company, details of which are set out in the announcements of the Company dated 12 January 2017 and 13 January 2017.

HNA EcoTech is controlled by HNA Group, a PRC-based Fortune Global 500 conglomerate encompassing various businesses including aviation, tourism, real estate, logistics and financial services. After the change in controlling shareholder, the Group still continues with its existing businesses. HNA EcoTech may explore other business opportunities for the Group such as acquisitions or investments in assets and/or business divestment and fund-raising, with a view to enhancing its overall growth and future development.

### Events

The Group remains active in industry activities. In 2016, it participated in the following industry events:

- TRUSTECH 2016
- 2016 International Internet of Things and Smart China Exhibition
- 2016 China International Smart Cards, RFID and IOT Exhibition & Conference
- Smart Card Alliance 2016 Payments Summit

In addition, the Group was declared a Center of Excellence ("COE") for the second year by the Smart Card Alliance. A company becomes declared a COE through outstanding investment in terms of time, talent and resources towards Smart Card Alliance activities. The Group was first declared a COE in 2015.

## PROSPECTS

### EFT-POS Banking Payment Terminal Market

The Group is optimistic about the EFT-POS terminal market. EFT-POS refers to the use of payment terminals to validate and facilitate credit or debit card transactions. The market is fast-growing according to The Nilson Report in 2016. In 2015, manufacturers worldwide shipped 43.5 million payment terminals, an increase of 27.1% from 2014. These devices were used as stand-alone terminals or/and connected to PC-based POS.

The Group is therefore strenghtening its portfolio of payment devices in response to these trends. The Group is preparing to launch the ACR900 EFT-POS banking terminal in 2017.

ACR900 is an all-in-one handheld terminal that supports contact, contactless and magnetic stripe technologies. The device is compliant and certified with international payment standards, including PCI PTS, EMV Level 2, PayPass, and payWave.

The level of security of ACR900, coupled with support for different technology types, make it ideal for organisations in different stages of readiness for technology migration. It is also equipped with a host of features that meet market demands in terms of functionality. In particular, it offers high performance with large memory and portability and supports for wireless communication technologies.


*2016 China International Smart Cards, RFID and IOT Exhibition & Conference*

*TRUSTECH 2016*

## PROSPECTS *(continued)*

### EMV Bank Card Market

Our ACOSJ series has received its China PBOC certification in 2016 and plans to receive other globally recognized Visa and MasterCard certifications in 2017. Considering the growing market for EMV bank cards, ACOSJ is a timely addition to the Group's product portfolio. Global technical body EMVCo reported sustained growth in the worldwide adoption of EMV chip technology. Official figures of aggregated data show that by the end of 2015, the number of EMV payment cards in global circulation increased year-on-year, by 1.4 billion to 4.8 billion.

In addition, EMVCo also reports that 35.8% of all card-present transactions conducted globally between January and December 2015 used EMV chip technology, up from 32% for the same period in 2014.

It is believed that global adoption of EMV card is imperative to the development of a more secure and interoperable payment industry. The ACOSJ series will enable the Group to penetrate the EMV bank card market.

## RISK FACTORS

The Group's results of operations, financial condition and growth prospects may be affected by risks and uncertainties directly or indirectly pertaining to the Group's businesses. The risk factors set out below are those that could result in the Group's results of operations, financial condition and growth prospects differing materially from expected or historical results. Such factors are by no means exhaustive or comprehensive and there may be other risks in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

### Operation Risk

*Reliance on a limited number of large customers*

Sales to the largest customer and top five customers accounted for 9% and 31% of the Group's turnover for the year ended 31 December 2016 (2015: 17% and 45%). 3 customers were being the top five customers for both 2015 and 2016. There is no assurance that the demand for the products of the Group from these customers can be maintained in the future. In the event that the demand from them decreases significantly and the Group is unable to find replacement customers on terms acceptable to the Group, results of operations of the Group may be adversely affected.

*Reliance on certain independent manufacturers for manufacturing smart card related products*

The Group does not own any production facilities. It subcontracts substantially all of its production activities to external manufacturers in the People's Public of China. During the year ended 31 December 2016, the Group has engaged 3 manufacturers for smart card and 3 manufacturers for smart card readers, all these manufacturers were engaged by the Group for at least over 5 years. Financial or other difficulties faced by these manufacturers or any change in the Group's relationship with these manufacturers could affect the Group's ability to meet scheduled product deliveries to its customers and may in turn adversely affect the Group's business operations.

## RISK FACTORS *(continued)*

### Operation Risk *(continued)*

*Reliance on ability to attract and retain skilled engineers*

The performance of the Group depends, to a significant extent, on the continued services and performance of its research, development and deployment teams. As at 31 December 2016, 53% (2015: 60%) of full time employees of the Group are engineers for research, development and deployment and 39% (2015: 25%) of them served the Group for over 5 years. Competition for employees with the requisite skills, qualifications and experience in the industry is intense. If the Group is unable to attract, retain and motivate skilled engineers in the future, the operations of the Group may be adversely affected.

### Business Risk

*Rapid changes in technology*

The Group operates in a market which is characterised by rapid changes in technology, industry standards, customer preferences and frequent introductions and enhancements of products and services. Accordingly, the performance of the Group will depend on its ability to improve the functions and reliability of its products and services and adapt to new industry standards and customer preferences. In the event that the Group fails to adapt successfully to such changes, the results of operations and growth prospects of the Group may be adversely affected.

*Substantial capital expenditure on new products and services*

The introduction of new products and services in response to rapid changes in technology, industry standards and customer preferences require substantial capital expenditure. During the year ended 31 December 2016, the Group recorded an addition of HK$12 million (2015: HK$16 million) on development costs of new products and services and as at 31 December 2016, balance of development costs of new products and services amounted to HK$43 million (2015: HK$44 million). It was estimated that approximately at least HK$12 million further costs, which mainly referred to staff cost and certificate cost, will be incurred to complete most of the existing projects of new products and services. The substantial capital expenditure may have an adverse impact on the financial resources of the Group. In the event the new products and services do not achieve market acceptance or there is substantial delay in the process, the results of operations and growth prospects of the Group may be adversely affected.

### Financial Risk

The Group is exposed to a variety of key financial risks including mainly credit risk, details of the aforesaid key risk and risk mitigation measures are elaborated in note 26 "Financial risk management and fair values of financial instruments" to the financial statements of this annual report.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

At all times the Group maintains a healthy liquidity position. As at 31 December 2016, the Group's cash and cash equivalents amounted to HK$41 million (31 December 2015: HK$39 million). The bank borrowings of the Group amounted to HK$14 million as at 31 December 2016 (31 December 2015: HK$44 million), which are denominated in Hong Kong dollars ("HK$") and US$, interest bearing at floating rates and repayable within five years. The gearing ratio as at 31 December 2016, being the total interest bearing debts over the total equity, was 0.10 (31 December 2015: 0.33). Net asset value as at 31 December 2016 was HK$147 million (31 December 2015: HK$131 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, the Group recorded net cash inflow in operating activities of HK$11 million (2015: HK$25 million), the amount decreased significantly as a result of decrease in operating profit. Although the Group recorded a loss before taxation, it still maintained a positive cashflow from operating activities as loss from operations before interest, tax, depreciation, amortisation and impairment loss on intangible assets (EBITDA) of the Group for 2016 was only HK$1.5 million (2015: earnings of HK$39.4 million). The Group recorded net cash outflow in investing activities of HK$14 million (2015: HK$22 million) during 2016. Decrease in net cash outflow was due to the decrease in capital expenditure on development projects of HK$4 million and decrease in payment to acquire business of HK$3 million. The Group recorded net cash inflow in financing activities of HK$14 million in 2016 (2015: outflow of HK$8 million) as a net proceeds of HK$39 million from shares issued under rights issue was received in 2016. In 2016, the Group recorded a net repayment of bank loans of around HK$20 million (2015: HK$1 million).

## DISPOSALS AND ACQUISITIONS

During the year ended 31 December 2016, the Group did not have any material disposals or investments of subsidiaries and affiliated companies.

## EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

The assets, liabilities and transactions of the Group are primarily denominated in HK$, PHP, US$ and Renminbi. As HK$ is pegged to US$, exchange risk arising from US$ does not have significant financial impact to the Group. The Group also enters into foreign exchange hedging transactions from time to time to manage its currency risk exposure, as at 31 December 2016, no related hedge was made by the Group (31 December 2015: forward contracts to sell EUR300,000).

Under foreign exchange hedging policy of the Group, the Group only hedges its foreign exchange exposures in sales and purchases by entering into forward contracts. Under no circumstances would the Group enter into foreign exchange hedging transactions exceeding the aggregate amount of all trade receivables and purchase orders received from customers in the relevant foreign currency nor for speculative purposes.



## PLEDGE OF ASSETS

As at 31 December 2016, the Group did not pledge any of its material assets.

## CONTINGENT LIABILITIES

As at 31 December 2016, the Company had outstanding corporate guarantee of HK$80 million (plus accrued interest thereon) to banks in respect of banking facilities granted to its major subsidiaries. As at 31 December 2016, the Group had available banking facilities of approximately HK$66 million and of which HK$52 million had not been utilised. Save as disclosed herein, the Group did not have any significant contingent liabilities.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2016, the Group had 190 full time employees. Staff costs recognised in profit or loss amounted to HK$49 million (2015: HK$56 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.

# DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

### Mr. PENG Fang | Chairman

Mr. Peng Fang, aged 32, is an executive Director and the chairman of the Board of the Company, all of which were appointed on 31 March 2017. Mr. Peng joined HNA Cloud Technology Co., Ltd. (海航雲科技有限公司) and served as a chief investment officer from November 2015 to March 2016. He then served various positions in HNA EcoTech Group Co., Ltd.* (海航生態科技集團有限公司) including investment vice president from March 2016 to November 2016, investment president from November 2016 to December 2016 and chief operating officer since December 2016. He is currently a director of HNA EcoTech, the controlling shareholder of the Company. Mr. Peng obtained a master degree in Economics from Peking University in July 2008.

### Mr. CUI Yijun

Mr. Cui Yijun, aged 35, was appointed as an executive Director of the Company on 31 March 2017. Mr. Cui has extensive experiences in financial management, capital operation as well as international finance. He started his career with HNA Group in 2004 and served various management positions in HNA Group's subsidiaries including chief financial officer of HNA Logistics Group Co., Ltd.* (海航物流集團有限公司), chief financial officer, financial controller and deputy financial controller of HNA Capital Group Co. Ltd.* (海航資本集團有限公司), general manager of finance department of Hainan Airlines Company Limited (海南航空股份有限公司) (a Shanghai A-share listed company with stock code: 600221), deputy general manager of plan finance department (計劃財務部) and director of cash flow management centre (現金流管理中心) of HNA Group, project director of aircraft acquisition department (飛機引進部) of Hainan HNA Aeronautics Import & Export Limited Company* (海南海航航空進出口有限公司), the aircraft import business assistant of purchasing administration department (採購管理部飛機引進商務助理) of HNA Group, and business staff of cabin and local service department (客艙與地面服務部商務員) of Hainan Airlines Company Limited (海南航空股份有限公司) (a Shanghai A-share listed company with stock code: 600221). Mr. Cui has been the financial controller of HNA Tech & Logistics Group Co., Ltd* (海航科技物流集團有限公司) (the "HNA Tech & Logistics Group") since December 2016. Mr. Cui obtained a bachelor's degree in English from Xi'an Jiaotong University in China in 2004. He is currently enrolled in Executive Master of Business Administration in Guanghua School of Management of Peking University.

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# DIRECTORS AND SENIOR MANAGEMENT

### Mr. WANG Hao

Mr. Wang Hao (王浩), aged 39, was appointed as an executive Director of the Company on 31 March 2017. Mr. Wang has over 16 years of working experience in financial and corporate management, and has extensive knowledge and experience in corporate management. He has been a nonexecutive director of HNA Holding Group Co. Limited (海航實業集團股份有限公司) since February 2016. HNA Holding Group Co. Limited is a company listed on the Main Board of the Stock Exchange with stock code 521. He was appointed as an executive director, the chief executive officer of and the chairman of the board of directors of HNA Holding Group Co. Limited in June 2015. He stepped down as the chairman of the board of directors and executive director of HNA Holding Group Co. Limited in July 2015 and February 2016, respectively, and was re-designated as a non-executive director of HNA Holding Group Co. Limited and resigned as the Chief Executive Officer of HNA Holding Group Co. Limited in February 2016. Mr. Wang is currently the chairman of the board of directors of Hong Kong International Aviation Leasing Co., Ltd. (香港國際航空租賃有限公司) and the investment president of HNA Tech & Logistics Group. Mr. Wang has also served various positions in the group of HNA Group since 1999, including the business office manager of procurement department (採購部商務室經理) of Hainan Airlines Company Limited (海南航空股份有限公司) (a Shanghai A-share listed company with stock code: 600221), the general manager of plan finance department of HNA Group, the financial controller of HNA Airlines Holdings Co., Ltd.* (海航航空控股有限公司), the vice chief executive officer of SeaCo Ltd, the financial controller of HNA Capital Group Co., Ltd.* (海航資本集團有限公司) and the vice-chairman and chief executive officer of HNA Group (International) Company Limited (海航集團(國際)有限公司). He was also the chief executive officer of Bohai Capital Holding Co., Ltd* (渤海金控投資股份有限公司) (a Shenzhen A-share listed company with stock code: 000415) from May 2013 to February 2015. Mr. Wang obtained a master degree in business administration from City University of Seattle in 2007.

### Mr. WONG Chi Ho | Co-Chief Executive Officer

Mr. Wong Chi Ho, aged 38, is an executive Director, a Co-Chief Executive Officer of the Group and a member of the Nomination Committee, all of which were appointed on 24 March 2015. He was appointed as a member of the Remuneration Committee on 31 March 2017. He is also a director and the legal representative of several subsidiaries of the Group. He joined the Group in July 2013. He is involved in the development of the Group's smart card and smart card reader technologies. Mr. Wong Chi Ho has over eight years of engineering work experience in Silicon Valley, California, U.S.A., where he worked for Qualcomm Technologies, Inc., Nvidia Corporation and Sun Microsystems Inc.. Mr. Wong Chi Ho obtained a Master of Science in Management, Science and Engineering degree from Stanford University in California, U.S.A. in January 2005 as well as Bachelor of Science in Engineering in Electrical Engineering (Summa Cum Laude) and Master of Science in Engineering in Electrical Engineering degrees from The University of Michigan at Ann Arbor in Michigan, U.S.A. in April 2001 and April 2002, respectively. Mr. Wong Chi Ho passed Level 3 of the CFA Study and Examination Program of the CFA Institute. He is a son of Ms. Tsui Kam Ling and the brother of Mr. Wong Chi Kit.

* *For identification purposes only*

## INDEPENDENT NON-EXECUTIVE DIRECTORS

### Ms. KAUNG Cheng Xi Dawn

Ms. Kaung Cheng Xi Dawn, aged 36, was appointed as an independent non-executive Director on 24 March 2015. She is also a member of the Audit Committee and the Nomination Committees. Ms. Kaung was appointed as the Chairman of the Remuneration Committee with effect from 1 April 2017. Ms. Kaung Cheng Xi Dawn was a Sales Director at Avery Dennison Hong Kong B.V. from September 2014 to February 2016. Prior to joining Avery Dennison Hong Kong B.V. as Senior Manager of Global Supply Chain in February 2013, Ms. Kaung worked as an Associate with McKinsey & Company from November 2010 to January 2013. Previously, Ms. Kaung worked at Dell Inc. group of companies in U.S.A. and Singapore from July 2003 to August 2008. Ms. Kaung obtained her Master in Business Administration degree from Harvard University in Massachusetts, U.S.A. in May 2010. She also received her Master of Science in Management Science and Engineering degree from Stanford University in California, U.S.A. in June 2003 and her Bachelor of Science in Engineering in Industrial and Operations Engineering (Summa Cum Laude) degree from The University of Michigan at Ann Arbor in Michigan, U.S.A. in April 2002.

### Mr. LO Kar Chun, SBS, JP

Mr. Lo Kar Chun, aged 65, was appointed as an independent non-executive Director on 17 March 2014. He is also a member of the Audit Committee and the Nomination Committee, and the Chairman of the Remuneration Committee. Mr. Lo Kar Chun 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 obtained a Bachelor of Science General (First Class Honour) degree from The University of Hong Kong in November 1973.

Mr. Lo resigned as an independent non-executive Director and a member of the Audit Committee and the Nomination Committee, and the Chairman of the Remuneration Committee with effect from 1 April 2017.

### Mr. YIM Kai Pung

Mr. Yim Kai Pung, aged 52, 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 Nomination Committee and the Remuneration Committee. Mr. Yim Kai Pung was appointed as the Chairman of the Nomination Committee on 31 March 2017. Mr. Yim Kai Pung has extensive experience working in CPA firms providing services of audit, tax advices and capital consultancy and planning arrangements for initial public offering services. He is a Managing Director of CCTH CPA Limited. He served as an independent non-executive director of Greens Holdings Limited (Stock Code: 1318) from 2009 to 2015; an independent non-executive director of Success Universe Group Limited (formerly known as Macau Success Limited) (Stock Code: 487) from 2004 to 2012; an executive director of Heng Xin China Holdings Limited (formerly known as Tiger Tech Holdings Limited) (Stock Code: 8046) from 2006 to 2007; and an independent non-executive director of Magician Industries (Holdings) Limited (presently known as LISI Group (Holdings) Limited) (Stock Code: 526) from 2005 to 2006. Mr. Yim graduated from the City Polytechnic of Hong Kong with a Bachelor of Arts in Accountancy degree in November 1993. 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.

# DIRECTORS AND SENIOR MANAGEMENT

## SENIOR MANAGEMENT

### Mr. WONG Chi Kit | Co-Chief Executive Officer

Mr. Wong Chi Kit, aged 33, is a Co-Chief Executive Officer of the Group and a director of several subsidiaries of the Group. Mr. Wong resigned as an executive director of the Company and a member of the Remuneration Committee on 31 March 2017. He joined the Group in October 2008 as the Vice President of Global Sales. Mr. Wong Chi Kit became the head of business development of the Group in 2013 and he is currently in charge of the Group's solutions business, providing e-purse, automatic fare collection, retail and loyalty, and payment solutions. Mr. Wong Chi Kit graduated with a Bachelor of Arts degree with Distinction, double majoring in Psychology and Economics from The University of Michigan at Ann Arbor in Michigan, U.S.A. in December 2004. He is a son of Ms. Tsui Kam Ling and the brother of Mr. Wong Chi Ho.

### Ms. LAI Yuen Yee | Executive Vice President

Ms. Lai Yuen Yee, aged 52, 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 in September 1987.

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

Mr. Leung Tin Chak Gilbert, aged 41, 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 the Group. He has been involved actively in promoting the products of the Group, innovating smart card technologies in the market, identifying and exploring new market opportunities. Mr. Leung obtained his Bachelor of Engineering in Industrial Engineering and Engineering Management and Master of Philosophy in Industrial Engineering and Engineering Management from The Hong Kong University of Science and Technology in November 1999 and November 2001, respectively.

### Ms. SUEN Yu May Sammi | Financial Controller

Ms. Suen Yu May Sammi, aged 37, 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 15 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 in November 2001. She is also a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants.

During the Year, the Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange. The Directors are of the opinion that the Company has compiled with the code provisions set out in the CG Code for the year ended 31 December 2016.

## DIRECTORS' SECURITIES TRANSACTIONS

For the Year, the Company has adopted dealings rules on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry of all directors of the Company, all directors of the Company confirmed that they have complied with the required standard set out in the Model Code during the year ended 31 December 2016 regarding Directors' securities transactions.

## BOARD OF DIRECTORS

The Board comprises currently 4 executive directors, namely Mr. Peng Fang (being the chairman of the Board), Mr. Cui Yijun, Mr. Wang Hao and Mr. Wong Chi Ho; and 3 independent non-executive directors, Ms. Kaung Cheng Xi Dawn, Mr. Lo Kar Chun, SBS, JP and Mr. Yim Kai Pung. Details of each director are disclosed on page 15 of this Annual Report.

Mr. Lo Kar Chun, SBS, JP resigned as an independent non-executive director on 31 March 2017 with effect from 1 April 2017. Following the resignation of Mr. Lo, the Board comprises four executive Directors and two independent non-executive Directors. As a result, the number of independent non-executive Directors has fallen below the minimum number required under Rules 3.10(1) of the Listing Rules. In addition, the Company is not in compliance with Rule 3.21 of the Listing Rules with regard to the composition of the Audit Committee.

The Company considers that the failure of meeting the abovementioned requirements of the Listing Rules is temporary in nature and will endeavour to ensure that the vacancies are filled as soon as practicable. Pursuant to Rules 3.11 and 3.23 of the Listing Rules, the Company will make the relevant appointments within three (3) months from 1 April 2017 to meet the requirements set out in Rules 3.10(1) and 3.21 of the Listing Rules. Further announcement(s) will be made by the Company as and when appropriate.

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.

## BOARD OF DIRECTORS *(continued)*

(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.

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 4 meetings during the year ended 31 December 2016. Agenda of Board meetings are presented to the Directors for comments and approval. The Board is provided with adequate, timely and reliable information about the Group's business and developments before each Board meeting at which the Directors actively participate and hold informed discussions. All Directors are asked to review and comment on the Board minutes within a reasonable time after the meetings to maintain accurate records of Board discussions and decisions. Details of individual attendance of directors are set out below:

| Name of directors | Attended/Eligible to attend |
|---|---|
| *Executive directors* | |
| Mr. Wong Chi Ho | 4/4 |
| Mr. Tan Keng Boon (retired on 20 May 2016) | 1/1 |
| Ms. Tsui Kam Ling (resigned on 31 March 2017) | 4/4 |
| Mr. Wong Chi Kit (resigned on 31 March 2017) | 4/4 |
| *Independent non-executive directors* | |
| Mr. Kaung Cheng Xi Dawn | 4/4 |
| Mr. Lo Kar Chun, SBS, JP (resigned with effect from 1 April 2017) | 4/4 |
| Mr. Yim Kai Pung | 4/4 |

During the year ended 31 December 2016, the Board at all times exceeded the minimum requirements of the Listing Rule 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 3.13 of the 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 was the mother of Mr. Wong Chi Ho and Mr. Wong Chi Kit. Save as disclosed herein, there is no relationship (including financial, business, family or other material/relevant relationships) among members of the Board.

## BOARD OF DIRECTORS *(continued)*

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 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.

All directors have complied with the CG Code during the year ended 31 December 2016 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 Chi Ho | ✓ | – |
| Ms. Tsui Kam Ling | ✓ | – |
| Mr. Wong Chi Kit | ✓ | – |
| *Independent non-executive directors* | | |
| Mr. Kaung Cheng Xi Dawn | ✓ | – |
| Mr. Lo Kar Chun, SBS, JP | ✓ | – |
| Mr. Yim Kai Pung | ✓ | ✓ |

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Ms. Tsui Kam Ling was appointed as the Chairman of the Company on 24 March 2015 up to 31 March 2017. On 31 March 2017, Ms. Tsui Kam Ling resigned as executive director and Chairman of the Board of the Company due to the change in control of the Company. On 31 March 2017, Mr. Peng Fang was appointed as executive director and Chairman of the Board of the Company. Chairman of the Board is mainly responsible for providing leadership and directions to the Board.

Mr. Wong Chi Ho and Mr. Wong Chi Kit are Co-Chief Executive Officer of the Group who are responsible for overseeing the management of the Group's business with assistance of the Group's senior management team. The roles of chairman and chief executive officer were separated.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

The term of appointment of Ms. Kaung Cheng Xi Dawn as the independent non-executive director is two years commencing from 24 March 2015 to 23 March 2017. The Company has renewed the appointment letter with Ms. Kaung with a term of two years commencing on 24 March 2017.

The term of appointment of Mr. Lo Kar Chun, SBS, JP as the independent non-executive directors is two years commencing from 17 March 2014 to 16 March 2016. The Company has renewed the appointment letter with Mr. Lo with a term of two years commencing on 17 March 2016. Mr. Lo tendered his resignation as an independent non-executive Director on 31 March 2017 with effect from 1 April 2017.

The term of appointment of Mr. Yim Kai Pung as the independent non-executive directors is two years commencing from 10 June 2014 to 9 June 2016. The Company has renewed the appointment letter with Mr. Yim with a term of two years commencing on 10 June 2016.

### Board Diversity Policy

The Board has adopted a board diversity policy (the "Policy") which sets out the approach to achieve and maintain 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 educational background, ethnicity, professional experience, skills knowledge, and length of service.

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

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

## BOARD COMMITTEES

### (i) Audit Committee

The Company has adopted revised written terms of reference in compliance with the Listing Rules on 29 September 2015. 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 currently comprises 3 members, namely Mr. Yim Kai Pung (being the chairman of the audit committee), Ms. Kaung Cheng Xi Dawn and Mr. Lo Kar Chun, SBS, JP. Following the effective of resignation of Mr. Lo Kar Chun, SBS, JP on 1 April 2017, the Company is not in compliance with Rule 3.21 of the Listing Rules.

## BOARD COMMITTEES *(continued)*

### (i) Audit Committee *(continued)*

The audit committee held three meetings during the Year. Out of these three 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)* | 3/3 |
| Ms. Kaung Cheng Xi Dawn | 3/3 |
| Mr. Lo Kar Chun, SBS, JP (resigned with effect from 1 April 2017) | 3/3 |

Set out below is the summary of work performed by the audit committee during the year ended 31 December 2016:

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

(2) to monitor integrity of the Company's financial statements, annual report and interim report, 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 2016.

### (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 8 to the financial statements. The remuneration payable to the three members of the senior management during the Year falls within the following bands:

| | |
|---|---|
| Nil to HK$1,000,000 | 2 |
| HK$1,000,001 to HK$1,500,000 | 1 |
| | 3 |

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

Mr. Lo Kar Chun, SBS, JP resigned as the chairman of the remuneration committee and Ms. Kaung Cheng Xi Dawn was appointed as the chairman of the remuneration committee with effect from 1 April 2017.

## BOARD COMMITTEES *(continued)*

### (ii) Remuneration Committee *(continued)*

The remuneration committee held one meeting during the Year to determine the specific remuneration packages of all executive directors and senior management. Details of individual attendance of its members are set out below:

| Name of directors | Attended/Eligible to attend |
|---|---|
| *Independent non-executive directors* | |
| Mr. Lo Kar Chun, SBS, JP *(Chairman)* (resigned with effect from 1 April 2017) | 1/1 |
| Mr. Yim Kai Pung | 1/1 |
| *Executive directors* | |
| Mr. Wong Chi Ho (appointed on 31 March 2017) | 0/0 |
| Mr. Wong Chi Kit (resigned on 31 March 2017) | 1/1 |

### (iii) Nomination Committee

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

The nomination committee currently comprises 4 members, namely Mr. Yim Kai Pung (being the chairman of the nomination committee), Ms. Kaung Cheng Xi Dawn, Mr. Lo Kar Chun, SBS, JP and Mr. Wong Chi Ho. Mr. Lo Kar Chun, SBS, JP resigned as a member of nomination committee with effect from 1 April 2017.

During the Year, the nomination committee held one meeting to review the structure, size, board diversity, and composition of the Board. 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)* | 1/1 |
| Ms. Kaung Cheng Xi Dawn | 1/1 |
| Mr. Lo Kar Chun, SBS, JP (resigned with effect from 1 April 2017) | 1/1 |
| *Executive directors* | |
| Mr. Wong Chi Ho | 1/1 |
| Ms. Tsui Kam Ling (resigned on 31 March 2017) | 1/1 |

## BOARD COMMITTEES *(continued)*

### (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 3 members, namely Mr. Wong Chi Ho (being the chairman of the finance and investment committee), Ms. Lai Yuen Yee and Ms. Suen Yu May Sammi.

During the year ended 31 December 2016, no meeting held by the finance and investment committee.

### (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 CG Code and disclosure in the Corporate Governance Report.

The Board has reviewed the Company's policies and practices on corporate governance to make sure that the Company has complied with the CG Code for the year ended 31 December 2016 and to explain any deviation from the CG 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 2016, the fee payable to KPMG in respect of audit services amounted to HK$960,000 and the fee payable in respect of non-audit services amounted to HK$280,000. The fee payable for other services of HK$280,000 was rendered for the rights issue completed during the year ended 31 December 2016 and was deducted against share premium of the Company.

## ACCOUNTABILITY AND AUDIT

The directors acknowledged that it is their responsibility for preparing the financial statements. A statement by the auditor about their reporting responsibilities is set out on pages 42 to 48 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 AND RISK MANAGEMENT

The Board is responsible for overseeing the systems of risk management and 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.

In order to comply with the CG Code effective from 1 January 2016, the Company has set up its own internal audit department to perform an internal audit function in March 2016. Audit plans, risk assessments and internal audit reports are presented to and reviewed by the audit committee and the Board of Directors.

A bottom-up approach is utilised to ensure a holistic risk management process, all departments involved to identify and prioritise risks and reported to risk management working group, which included members from management and major departments. Risk management working group regularly assesses if risks are comprehensively identified, prioritised, and properly addressed to accomplish the Group's objectives. The management team is monitoring emerging risks for continuous risk assessment purpose and for building the risk-management based internal audit plan and periodically assess the adequacy and effectiveness of risk management and internal controls for ongoing risk assurance purposes. This enhances the effectiveness of the Group's risk and control framework.

The Company has adopted corporate disclosure policy for disclosure of price sensitive information as formulated in the Securities and Future (Amendment) Bill 2011, to ensure application with obligations under applicable rules, regulations and laws. A disclosure working group was set up under such policy to oversee disclosure obligation of the Company regularly.

During the Year, the Board, through the audit committee, has assessed the effectiveness of the risk management and internal control systems 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 on annual basis. The Board is satisfied that, the present systems of risk management and internal control are effective.

## 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 is an associate member of both The Institute of Chartered Secretaries & Administration in the United Kingdom and The Hong Kong Institute of Chartered Secretaries. 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 CG Code.

## SHAREHOLDERS' RIGHTS

Pursuant to Article 12.3 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 to be held within a further 21 days, 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 2016 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 Listing Rules. The chairman of the Board, audit committee, remuneration committee and nomination committee or their duly appointed delegate attended the 2016 annual general meeting to answer questions of shareholders. No other general meeting was held during 2016. Details of individual attendance of directors at the 2016 annual general meeting is set out below:

| Name of directors | Attended/Eligible to attend |
|---|---|
| *Executive directors* | |
| Mr. Wong Chi Ho | 1/1 |
| Mr. Tan Keng Boon (retired on 20 May 2016) | 1/1 |
| Ms. Tsui Kam Ling (resigned on 31 March 2017) | 1/1 |
| Mr. Wong Chi Kit (resigned on 31 March 2017) | 1/1 |
| *Independent non-executive directors* | |
| Mr. Kaung Cheng Xi Dawn | 1/1 |
| Mr. Lo Kar Chun, SBS, JP (resigned with effect from 1 April 2017) | 1/1 |
| Mr. Yim Kai Pung | 0/1 |

## CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2016, there is no change in the constitutional documents of the Company.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

It is the responsibility of the Board of the Company to assess the environmental, social and governance risks, formulate the environmental, social and governance strategy, ensure the establishment and maintenance of an effective internal control system on environmental, social and governance aspects as well as perform regular analysis and independent assessment on the adequacy and effectiveness of the said system through the internal audit function.

Major offices of the Group located in Hong Kong, the People's Republic of China ("PRC") and the Philippines, hence the Environmental, Social and Governance Report contain information and data from these offices.

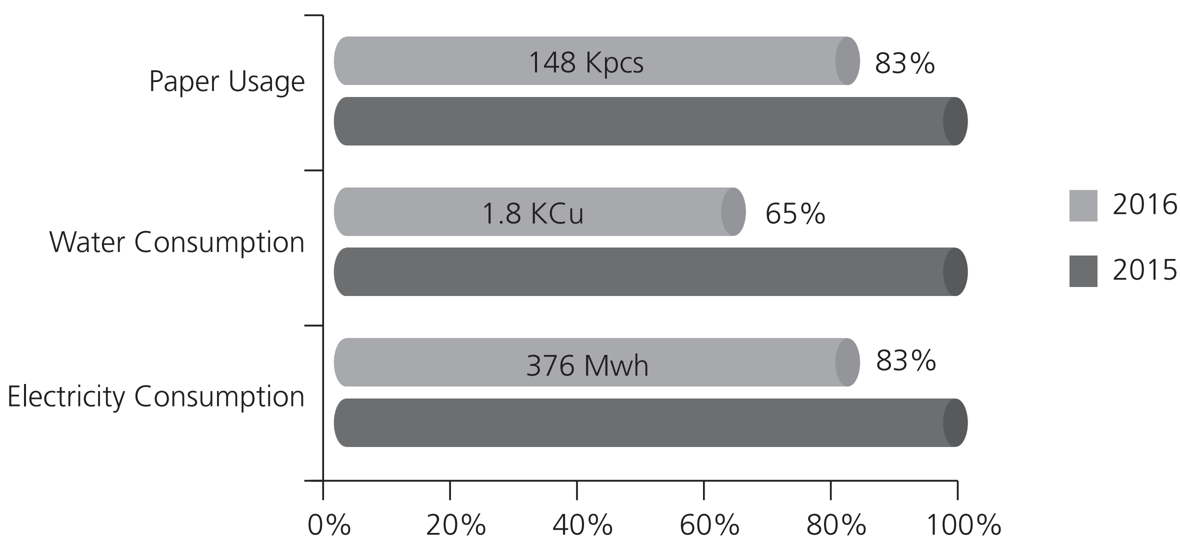
This Report is prepared pursuant to the revised "Environmental, Social and Governance Reporting Guide" under Appendix 27 of the Listing Rules issued by the Stock Exchange.

## ENVIRONMENTAL

The Group is committed to create a business that contributes to global efforts in environmental care and sustainability. 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 Automatic Fare Collection system solutions are also contributing to global efforts to reduce waste and paper consumption.

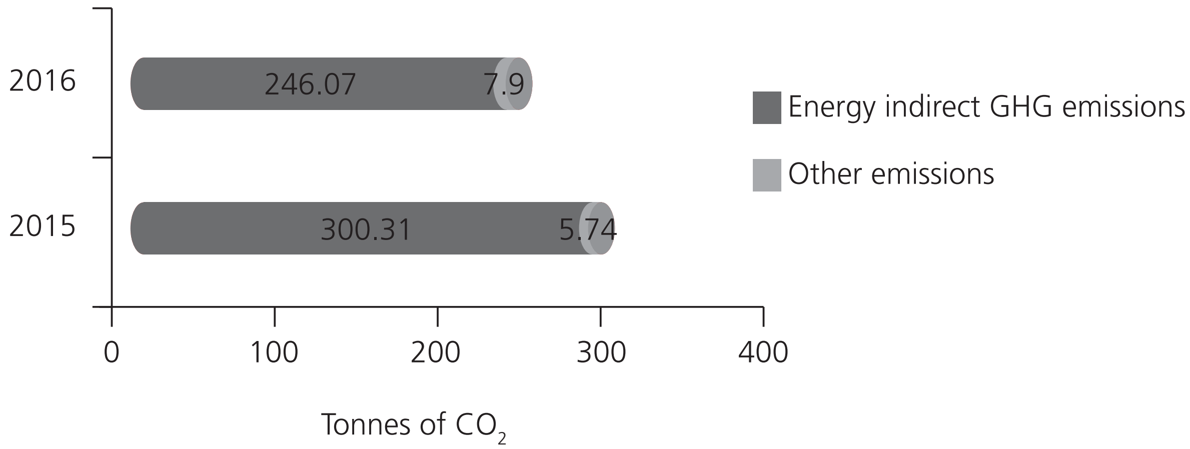
### Use of Resources

The Group is principally engaged in development, sales and distribution of smart card products, both hardware and software, and provision of smart card related services. Resources such as energy, water and raw materials are essential inputs to our business. The Group is committed to use resources wisely and efficiently and reduce waste generation within our operations. Throughout all of our operations, we have been progressively implementing different resource-saving measures, ranging from power-saving program, recycling paper and materials, to the behavioral change of our people. Compared with 2015, the Group successfully reduced its usage of different major resources by 17% to 35% in 2016.



### Emission, Environment and Natural Resources

Operations of the Group do not result in significant air and gas emissions, discharges into water and lands and impact on the environment and natural resources. Excluding indirect emissions form use of resource in daily operation, other direct and indirect emissions of the Group was less than 10 tonnes of CO2 per year in both 2015 and 2016. Total emissions of the Group decreased by 17% in 2016 compared with 2015.




## SOCIAL

### Supply Chain Management

For almost a decade, all devices developed by the Group have been compliant with the requirements laid down in the directive restricting the use of certain hazardous substances in electrical and electronic products, 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 products. It covers all domestically made and imported products in the European Union, with a few exemptions given on certain occasions. As such, supply chain management is always one of the key links in the Group's quality control system. The Group exercises a high level of scrutiny over the selection of suppliers. Major suppliers and subcontractors must prove their compliance with RoHS for them to be included into our supplier list. The Group also carries out long-term quality monitoring and regular review over major suppliers and subcontractors. They are subject to assessment and on-sit audits on product quality as well as suitability and quality consistency tests made by our quality department. In case of a significant change in their qualification or serious quality issue, the Group may suspend them from our supplier list.

### Product Responsibility

The Group is in the business of providing products that promise utmost security and convenience to our clients and their end customers. As such, the nature of our business requires the highest degree of accuracy, precision and quality in developing our products. To bolster our efforts in quality assurance, we undergo stringent certification programs from unbiased organisations that enforce international, national and industry standards. This is our way of ensuring we deliver only qualified products to the market, and maintaining our outstanding track record in the smart card industry.

A wholly owned subsidiary of the Group got its first ISO certification in 2007, having proven successful in following the requirements set by ISO 9001 standard. Two wholly owned major subsidiaries of the Group comply with ISO 9001 and their certificates are renewed in September 2016 and January 2017 respectively. The Group further improves the level of satisfaction it delivers to customers by carrying out business operations based on the Quality Policy and Quality Procedure Manual. Started from 2007, the Group surveys its high-volume clients annually which included questions in relation to product quality. Customers rated overall satisfaction level with the products of the Group as "good", which has been consistent since 2007.

## Employment and Labour Standards

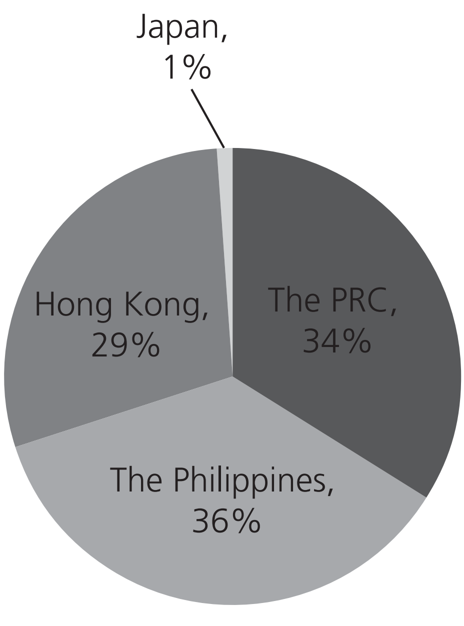
As of 31 December 2016, the Group has 190 full-time employees in offices located in Hong Kong, Shenzhen, Zhuhai, Manila and Tokyo. The Group Strictly complies with the requirements of the Labour Law or Regulations under local jurisdiction:

1. The Group prohibits the employment of child, forced or compulsory labour in any of our operations;
2. Wages, overtime payments and related benefits are made in accordance with minimum wage or above (if any);
3. Holidays and statutory paid leaves are compliant respective Labour Law or Regulations; and
4. The Group treats all its employees equally that their employment, remuneration and promotion will not be affected by their social identities such as ethnicity, race, nationality, gender, religion, age, sexual orientation, political faction and marital status.

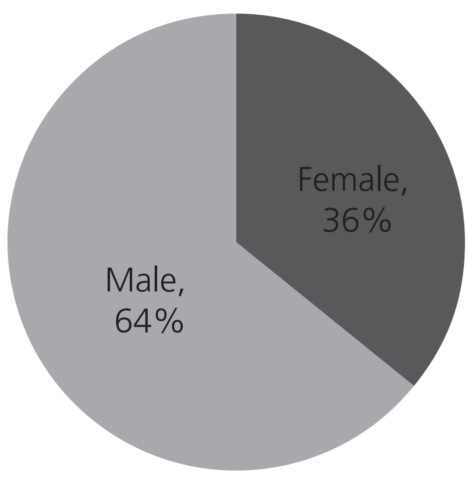
*Employee Distribution*

*As at 31 December 2016*

By Office




By Gender



### Health, Development and Training

The Group ample resources to staff training and development with the aim of sustaining a competent and professional staff force that will contribute to the success of the Group. In 2016, more than 232 training sessions were completed by our employees on different aspects such as technology, industry information, internal system and workflows, products, soft skills, safety and staff induction. As at 31 December 2016, over 90% employees were trained during the Year.

Moreover, a number of staff activities were organised in various offices, including annual dinner, Christmas party, sports competition, birthday party and so on, to show appreciation to employees for their contribution and to enhance their sense of belonging.

*2016 Annual Dinner – Hong Kong*


*Sportsfest – Manila*

### Anti-corruption

The Code of Conduct included in our Human Resources Manual allows our people to understand explicitly on several areas, which include the provisions of anti-bribery and corruption. The Group definitely has zero tolerance on bribery and corruption behavior.

### Community Investment

*Charity and Social Responsibility*

The Group is also devoted to charity work. In 2016, the Group called for donations from employees in Hong Kong for the Orbis World Sight Day Campaign to help support the new third generation Flying Eye Hospital of Orbis. In addition, employees in Manila organized an outreach feeding program for the malnourished children from an Aeta community in Angeles, Pampanga, the Philippines. They collected cash donations and items based on the list of needs from the staff and distributed the needed supplies and food to the kids.

The outreach program as well as charity donations raise concerns of employees on people in needs around the world and allow them to share their blessings towards others.

*Outreach program – Manila*

*Supporting Hong Kong's Technology Research and Development*

The Group 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 or diploma, a similar percentage is found even at headquarters in Hong Kong. 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.

*Awards on Research and Development*

ACS Technologies (Shenzhen) Limited, a wholly owned subsidiary of the Group, won Award for Best Solution in Golden Pine Award 2015, which is geared toward the mobile payment industry.

# 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 2016.

## PRINCIPAL PLACE OF BUSINESS

Advanced Card Systems Holdings Limited is a company incorporated and domiciled in Cayman Islands and has its registered office at P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and its principal place of business at Units 2010–2013, 20th Floor, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Hong Kong.

## 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 15 to the financial statements.

The segment analysis of locations of the operations of the Company and its subsidiaries during the Year are set out in note 4 to the financial statements.

## BUSINESS REVIEW

Business review as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group, an indication of likely future developments in the Group's business and relationships with its key stakeholders, can be found in the Management Discussion and Analysis set out on pages 5 to 14 of this Annual Report. In addition, discussion on the Group's environmental policies can be found on page 41 of this Annual Report. The compliance with relevants law and regulations which have a significant impact on the Group can be found on page 41 of this Annual Report.

## 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 | 9% | – |
| Five largest customers in aggregate | 31% | – |
| The largest supplier | – | 14% |
| Five largest suppliers in aggregate | – | 44% |

At no time during the Year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

## CHARITABLE DONATIONS

Charitable donations made by the Group during the Year amounted to HK$nil (2015: HK$500,000).

## RESULTS AND APPROPRIATIONS

The loss of the Group for the year ended 31 December 2016 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 49 to 117.

The directors have not recommended the payment of final dividend (2015: HK1.0 cents per share) for the year ended 31 December 2016.

## CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Tuesday, 20 June 2017 to Monday, 26 June 2017, 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 Monday, 19 June 2017.

## RESERVES

Loss for the year of HK$18,503,000 (2015: profit of HK$20,304,000) 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 change in equity on page 52 and note 25(a) to the financial statements.

## PLANT AND EQUIPMENT

Details of the movements in plant and equipment of the Group are set out in note 12 to the financial statements.

## SHARE CAPITAL

Details of the movements in share capital of the Company during the Year are set out in note 25(c) to the financial statements. Shares were issued during the year pursuant to the rights issue. Details about the issue of shares are also set out in note 25(c) to the financial statements.

# REPORT OF THE DIRECTORS

## DIRECTORS

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

### Executive directors

Mr. Peng Fang *(Chairman)* (appointed on 31 March 2017)
Mr. Cui Yijun (appointed on 31 March 2017)
Mr. Wang Hao (appointed on 31 March 2017)
Mr. Wong Chi Ho
Mr. Tan Keng Boon (retired on 20 May 2016)
Ms. Tsui Kam Ling (resigned on 31 March 2017)
Mr. Wong Chi Kit (resigned on 31 March 2017)

### Independent non-executive directors

Ms. Kaung Cheng Xi Dawn
Mr. Lo Kar Chun, SBS, JP (resigned with effect from 1 April 2017)
Mr. Yim Kai Pung

In accordance with Article 16.2 of the Company's Articles of Association, Mr. Peng Fang, Mr. Cui Yijun and Mr. Wang Hao, will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Article 16.18 of the Company's Articles of Association, Mr. Wong Chi Ho, will retire by rotation at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

## DIRECTORS' SERVICE CONTRACTS

The executive director, Mr. Wong Chi Ho, has entered into service agreement with the Company which was renewed for further two years from 24 March 2017 to 23 March 2019. Mr. Peng Fang, Mr. Cui Yijun and Mr. Wang Hao were appointed by the board of directors as executive directors and have entered into service agreements with the Company for two years commencing from 31 March 2017 to 30 March 2019. 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.

The independent non-executive director, Ms. Kaung Cheng Xi Dawn and Mr. Yim Kai Pung, have entered into service agreement with the Company which was renewed for further two years from 24 March 2017 to 23 March 2019 and from 10 June 2016 to 9 June 2018, respectively.

The independent non-executive director, Mr. Lo Kar Chun, SBS, JP has entered into service agreement with the Company which was renewed for further two years from 17 March 2016 to 16 March 2018. Mr. Lo tendered his resignation as an independent non-executive Director on 31 March 2017 with effect from 1 April 2017.

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 2016, 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 Model Code or as otherwise notified to the Company 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 2016 |
| *Executive Directors* | | | | | | |
| Ms. Tsui Kam Ling | 127,813,637 | 127,813,637 | – | – | 127,813,637 | 40.00% |
| Mr. Wong Chi Ho | 29,717,158 | 29,717,158 | – | – | 29,717,158 | 9.30% |
| Mr. Wong Chi Kit (Note 2) | 29,478,600 | 9,162,000 | – | – | 38,640,600 | 12.09% |
| *Independent Non-executive Director* | | | | | | |
| Mr. Lo Kar Chun, SBS, JP | 450,000 | – | – | – | 450,000 | 0.14% |

Notes:

1 The shares are registered under the names of the directors who are the beneficial owners.

2 29,478,600 shares are held by Mr. Wong Chi Kit personally and 9,162,000 shares are held by his wife, Ms. Chan Angelica Sheung Ying, personally. Mr. Wong Chi Kit is taken to be interested in the shares held by Ms. Chan Angelica Sheung Ying under the SFO.

Save as disclosed above, to the best knowledge of the directors of the Company, as at 31 December 2016, 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 to be notified to the Company and the Stock Exchange pursuant to the Model Code or as otherwise notified to the Company.

## 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

As at 31 December 2016, so far as is known to the directors or chief executive of the Company, the following shareholders (excluding directors and chief executive of the Company) had interests and short positions of 5% or more in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

| | Long position in ordinary shares of HK$0.10 each | | | | | |
|---|---|---|---|---|---|---|
| Name of shareholders | Personal interests | Family interests | Corporate interests | Other interests | Total number of shares held | Percentage of the Company's issued share capital as at 31 December 2015 |
| Ms. Chan Angelica Sheung Ying (Note 1) | 9,162,000 | 29,478,600 | – | – | 38,640,600 | 12.09% |

Note:

1 9,162,000 shares are held by Ms. Chan Angelica Sheung Ying personally and 29,478,600 shares are held by her husband, Mr. Wong Chi Kit, personally, who are also the beneficial owners. Ms. Chan Angelica Sheung Ying is taken to be interested in the shares held by Mr. Wong Chi Kit under the SFO.

Save as disclosed above, as at 31 December 2016 and to the best knowledge of the directors and chief executive of the Company, 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 TRANSACTIONS, ARRANGEMENT OR CONTRACTS OF SIGNIFICANCE

No transactions, arrangements or contracts of significance in relation to the Group's business to which the Company, its subsidiaries, its fellow subsidiaries or its parent company was a party and in which a director of the Company on his connected entities 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 of the Company 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.

## PERMITTED INDEMNITY PROVISION

The Articles of Association of the Company provides that every director shall be indemnified out of the assets of the Company against all losses or liability incurred or substained by him as a director in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted.

Throughout the Year and up to the date of this report, the Company has taken out insurance against the liabilities and costs associated with defending any proceedings which may be brought against the directors of the Company and its subsidiaries.

## BANK LOANS AND OTHER BORROWINGS

The Company and its subsidiaries obtained banking facilities during the Year. The bank borrowings as at 31 December 2016 amounted to HK$14.2 million and the details are set out in note 22 to the financial statements. Save as disclosed herein, there is no other outstanding balance of bank loans and other borrowings as at 31 December 2016.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group is set out on page 118 of this Annual Report.

## EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into during the Year or subsisted at the end of the Year.

## CONNECTED TRANSACTIONS

On 19 November 2015, a wholly owned subsidiary of the Company, as a borrower, entered into a facility agreement (the "Facility Agreement") with Ms. TSUI Kam Ling (a Director and substantial Shareholder), as a lender, for a revolving loan facility amounted to HK$20 million for a period of one year. The Facility Agreement was conducted on normal commercial terms or better that such financial assistance received by the Group was exempted from shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

Save as disclosed above, the other material related part transactions entered into by the Company during the year ended 31 December 2016 as disclosed in note 28 to the financial statements did not fall under the definition of "connected transaction" or "continuing connected transaction" (as the case may be) in Chapter 14A of the Listing rules.

## 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.

## EMPLOYEE RETIREMENT PLANS

Particulars of employee retirement plans of the Group are set out in note 23 to the financial statements.

## PUBLIC FLOAT

Based on the information publicly available and to the best information and knowledge of the Directors, during the year ended 31 December 2016, the Company had maintained the minimum public float as required under the Listing Rules.

As disclosed in the Company's joint announcement with HNA EcoTech dated 22 March 2017, upon the close of a mandatory unconditional cash offer (the "Offer") on 22 March 2017, there were 26,697,735 shares of the Company in the hands of the public, representing approximately 8.35% of the entire issued share capital of the Company. Accordingly, upon the close of the Offer, the minimum public float requirement of 25% under Rule 8.08(1)(a) of the Listing Rules was not satisfied. The Company has made an application to the Stock Exchange and the Stock Exchange has granted a temporary waiver from strict compliance with Rule 8.08(1)(a) of the Listing Rules for a period of three months from 22 March 2017 to 21 June 2017.

As at the date of this Annual Report, the minimum public float requirement under Rule 8.08(1)(a) of the Listing Rules is still not satisfied. The Company and/or HNA EcoTech will take appropriate steps to restore the required minimum public float as soon as practicable.

## ENVIRONMENTAL POLICY

The Group is committed to create a business that contributes to global efforts in environmental care and sustainability. A further discussion of the environmental policies of the Group can be found in the section headed "Environmental, Social and Governance Report" of this annual report, the discussion of which forms part of this Report of the Directors.

## COMPLIANCE WITH LAWS AND REGULATIONS

During the Year, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

## AUDITORS

BDO Limited resigned as auditors on 23 December 2015, KPMG has been appointed, as the auditor of the Company with effect from 23 December 2015.

The consolidated financial statements for the year ended 31 December 2015 and 2016 have been audited by KPMG, who will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

PENG Fang
*Chairman*

Hong Kong, 31 March 2017

# INDEPENDENT AUDITOR'S REPORT

KPMG

Independent auditor's report to the members of
Advanced Card Systems Holdings Limited
*(Incorporated in the Cayman Islands with limited liability)*

## OPINION

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 49 to 117, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Capitalisation and amortisation of development costs

*Refer to note 13 to the consolidated financial statements and the accounting policies note 2(i).*

| The Key Audit Matter | How the matter was addressed in our audit |
|---|---|
| The Group capitalises costs incurred in the development of its smart card products if they meet the criteria for capitalisation as set out in the prevailing accounting standards.<br><br>This involves significant management judgement in both determining when the criteria for capitalisation are met and in identifying the relevant costs to be capitalised. As at 31 December 2016, the carrying value of capitalised development costs totalled HK$43 million.<br><br>Amortisation of development costs commences once the developed technology is available for commercial use. Management applies judgement in identifying the point at which the technology is available for commercial use and in determining the estimated useful economic life of the technology by considering technological developments and future possible market conditions.<br><br>We identified the capitalisation and amortisation of development costs as a key audit matter because of the significant level of management judgement involved in determining when the criteria for capitalisation of development costs are met and in assessing the estimated useful lives of the developed technology. | Our audit procedures to assess the capitalisation and amortisation of development costs included the following:<br><br>• obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to the capitalisation of development costs and the estimations of the useful lives of the developed technology;<br><br>• challenging, on a sample basis, management's assessment of the fulfilment of the criteria for capitalisation of development costs as set out in the prevailing accounting standards by discussing with the Group's engineers the commercial application of the technology and inspecting the corresponding feasibility reports prepared by the Group's engineers;<br><br>• comparing a sample of items capitalised during the year with relevant underlying documentation, including timesheet data;<br><br>• comparing the point at which the developed technology became available for commercial use with the corresponding project completion report prepared by the Group's engineers and confirmed sales orders for all projects completed during the current year;<br><br>• challenging management's assessment of the estimated economic useful lives for all technology newly developed in the current year by comparing the estimates of economic useful lives with past performance for similar projects taking into account recent developments in the technology; and<br><br>• assessing the estimated economic useful lives of technology developed in prior years by making enquiries of management and engineers and inspecting, on a sample basis, the trend of sales data for the individual technologies. |

### Valuation of development costs capitalised as intangible assets

*Refer to note 13 to the consolidated financial statements and the accounting policies note 2(k).*

#### The Key Audit Matter

The costs incurred in the development of the Group's smart card products are capitalised as intangible assets when certain criteria are met. The carrying value of the Group's development costs capitalised as intangible assets totalled HK$43 million as at 31 December 2016.

Management performs an annual impairment assessment of its capitalised development costs on a project-by-project basis by identifying if there are any projects with indicators of potential impairment, which include a shortfall of revenue generated from the project as compared to management's forecasts, delays in project completion and changes in technology which may render the products obsolete or result in reduced sales opportunities.

For those projects for which an indicator of impairment was identified, management compared the carrying value of individual development costs against the respective discounted cashflow forecast to determine the amount of impairment which should be recognised, if any.

Management is required to exercise significant judgement in estimating the individual products' future revenue, future margins and the related costs to be incurred in bringing the technology into commercial use. The technology industry is dynamic and the reception of the market to the Group's products involves inherent uncertainty.

We have identified the valuation of development costs capitalised as intangible assets as a key audit matter because determining the level of impairment, if any, involves a significant degree of management judgement in forecasting future cash flows and estimating the recoverable amounts of the development costs, both of which are inherently uncertain and could be subject to management bias.

#### How the matter was addressed in our audit

Our audit procedures to assess the valuation of development costs capitalised as intangible assets included the following:

- assessing and challenging the impairment assessment model, which included evaluating the impairment indicators identified by management and assessing whether the impairment assessment models were prepared in accordance with the requirements of the prevailing accounting standards;
- challenging the key assumptions and critical judgements adopted by management in the discounted cashflow forecasts by comparing the significant inputs, which included future revenue and future margins with the historical performance of comparable products and the financial budgets for the individual projects approved by management;
- assessing the discount rates applied in the discounted cashflow forecasts by benchmarking against those of other similar companies in the same industry;
- enquiring of the Group's internal engineers and management about any expected changes in market demand and technological advances which may reduce the expected cashflows to be generated by the developed technology; and
- performing a sensitivity analysis of both the discount rates and future revenue and considering the resulting impact on the impairment assessment and whether there were any indicators of management bias.

### Recoverability of trade receivables

*Refer to note 18 to the consolidated financial statements and the accounting policies note 2(m).*

| The Key Audit Matter | How the matter was addressed in our audit |
|---|---|
| The carrying value of the Group's trade receivables as at 31 December 2016 totalled HK$48 million, which included allowances for doubtful debts of HK$0.3 million.<br><br>The Group's allowances for doubtful debts are based on management's estimate of the recoverability of individual trade receivables with reference to ageing of overdue balances, repayment histories of individual debtors, existing customer-specific and market conditions and the fulfilment of repayment arrangements agreed with specific debtors.<br><br>Management is required to exercise significant judgement in assessing the allowances for doubtful debts for individual trade receivables with reference to the assessment of the ability of the debtors to repay the Group. Such assessment depends on customer specific and market conditions which involves inherent uncertainty.<br><br>We identified the recoverability of trade receivables as a key audit matter because of the inherent uncertainty in assessing the ability of debtors to pay the amounts due and because the assessment of the allowances for doubtful debts requires the exercise of significant management judgement. | Our audit procedures to assess the recoverability of trade receivables included the following:<br><br>• obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls relating to credit control and debt collection;<br><br>• assessing whether items were properly categorised in the trade receivables ageing report by comparing a sample of individual items with underlying sales invoices;<br><br>• obtaining an understanding of the basis of management's judgements about the recoverability of overdue balances and evaluating the allowances for doubtful debts made by management for these individual balances by examining the information used by management to form such judgments, including the debtors' financial information, the ageing of overdue balances, historical and post year-end payment records, repayment arrangements agreed with specific debtors and by inspecting correspondence with individual debtors to identify potential disputes or claims;<br><br>• assessing the historical accuracy of management's assessment of the allowances for doubtful debts by comparing the allowances for doubtful debts as at 31 December 2015 with the actual new allowances made, write-offs and recoveries in respect of trade receivables as at 31 December 2015 during the current year; and<br><br>• comparing cash receipts from debtors subsequent to the financial year end relating to trade receivable balances at 31 December 2016 with bank statements and relevant underlying documentation on a sample basis. |

## INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lau Tai Cheong.

KPMG
*Certified Public Accountants*
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

31 March 2017

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

**For the year ended 31 December 2016**
*(Expressed in Hong Kong dollars)*

| | Note | 2016<br>*$'000* | 2015<br>*$'000* |
|---|---|---|---|
| **Revenue** | 4 | **152,284** | 234,526 |
| Cost of sales | | **(78,095)** | (118,287) |
| **Gross profit** | | **74,189** | 116,239 |
| Other income | 5 | **1,123** | 11,052 |
| Selling and distribution costs | | **(16,705)** | (19,120) |
| Research and development expenses | | **(36,509)** | (42,090) |
| Administrative expenses | | **(39,926)** | (41,688) |
| **(Loss)/profit from operations** | | **(17,828)** | 24,393 |
| Finance costs | 6(a) | **(1,056)** | (784) |
| Share of results of a joint venture | | **(1,639)** | (1,358) |
| **(Loss)/profit before taxation** | 6 | **(20,523)** | 22,251 |
| Income tax | 7(a) | **2,020** | (1,947) |
| **(Loss)/profit for the year attributable to the equity shareholders of the Company** | | **(18,503)** | 20,304 |
| **(Loss)/earnings per share** | 11 | | |
| Basic (2015: restated) | | **(6.268 cents)** | 6.963 cents |
| Diluted (2015: restated) | | **(6.268 cents)** | 6.963 cents |

The notes on pages 54 to 117 form part of these financial statements.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

**For the year ended 31 December 2016**
*(Expressed in Hong Kong dollars)*

| | Note | **2016** | 2015 |
|---|---|---|---|
| | | ***$'000*** | *$'000* |
| (Loss)/profit for the year | | **(18,503)** | 20,304 |
| Other comprehensive income for the year (after tax) | 10 | | |
| *Items that will not be reclassified to profit or loss:* | | | |
| Remeasurement of defined benefit obligations | | **(32)** | (32) |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences on translation of financial statements of foreign operations | | **(1,423)** | (828) |
| Total comprehensive income for the year | | **(19,958)** | 19,444 |
| Attributable to: | | | |
| Equity shareholders of the Company | | **(19,958)** | 19,444 |

The notes on pages 54 to 117 form part of these financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**At 31 December 2016**

*(Expressed in Hong Kong dollars)*

| | Note | 2016 $'000 | 2015 $'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Plant and equipment | 12 | 5,371 | 6,295 |
| Intangible assets | 13 | 45,263 | 47,248 |
| Goodwill | 14 | 1,172 | 1,972 |
| Interest in a joint venture | 16 | 209 | 2,008 |
| Prepayment for available-for-sale securities | | 377 | 377 |
| Deferred tax assets | 24(b) | 755 | 489 |
| | | 53,147 | 58,389 |
| **Current assets** | | | |
| Inventories | 17 | 29,998 | 34,548 |
| Trade and other receivables | 18 | 56,644 | 78,480 |
| Held-to-maturity financial assets | 19 | 861 | 730 |
| Current tax recoverable | 24(a) | 593 | 2,517 |
| Cash and cash equivalents | 20(a) | 40,551 | 38,941 |
| | | 128,647 | 155,216 |
| **Current liabilities** | | | |
| Trade and other payables | 21 | 19,496 | 35,384 |
| Bank loans and overdrafts | 22 | 14,222 | 43,591 |
| Current tax payable | 24(a) | 31 | 1,142 |
| | | 33,749 | 80,117 |
| **Net current assets** | | 94,898 | 75,099 |
| **Total assets less current liabilities** | | 148,045 | 133,488 |
| **Non-current liabilities** | | | |
| Defined benefit obligations | 23 | 864 | 814 |
| Deferred tax liabilities | 24(b) | 152 | 1,824 |
| | | 1,016 | 2,638 |
| **NET ASSETS** | | 147,029 | 130,850 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 25(c) | 31,956 | 28,406 |
| Reserves | | 115,073 | 102,444 |
| **TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY** | | 147,029 | 130,850 |

Approved and authorised for issue by the Board of Directors on 31 March 2017.

| | |
|---|---|
| PENG Fang | WONG Chi Ho |
| *Directors* | *Directors* |

The notes on pages 54 to 117 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**For the year ended 31 December 2016**
*(Expressed in Hong Kong dollars)*

| | Note | Share capital $'000 (Note 25(c)) | Share premium $'000 (Note 25(d)(i)) | Merger reserve $'000 (Note 25(d)(ii)) | Surplus reserve $'000 (Note 25(d)(iii)) | Exchange reserve $'000 (Note 25(d)(iv)) | Retained profits $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2015** | | 28,406 | 17,955 | 4,496 | – | 1,147 | 65,083 | 117,087 |
| **Changes in equity for the year:** | | | | | | | | |
| Profit for the year | | – | – | – | – | – | 20,304 | 20,304 |
| Other comprehensive income | 10 | – | – | – | – | (828) | (32) | (860) |
| Total comprehensive income | | – | – | – | – | (828) | 20,272 | 19,444 |
| Appropriation to surplus reserve | | – | – | – | 1,082 | – | (1,082) | – |
| Final dividend approved in respect of the previous year | 25(b) | – | – | – | – | – | (5,681) | (5,681) |
| **Balance at 31 December 2015** | | 28,406 | 17,955 | 4,496 | 1,082 | 319 | 78,592 | 130,850 |
| **Balance at 1 January 2016** | | **28,406** | **17,955** | **4,496** | **1,082** | **319** | **78,592** | **130,850** |
| **Changes in equity for the year:** | | | | | | | | |
| Loss for the year | | **–** | **–** | **–** | **–** | **–** | **(18,503)** | **(18,503)** |
| Other comprehensive income | 10 | **–** | **–** | **–** | **–** | **(1,423)** | **(32)** | **(1,455)** |
| Total comprehensive income | | **–** | **–** | **–** | **–** | **(1,423)** | **(18,535)** | **(19,958)** |
| Shares issued under rights issue | 25(c) | **3,550** | **36,928** | **–** | **–** | **–** | **–** | **40,478** |
| Transaction costs attributable to issue of shares under rights issue | 25(c) | **–** | **(1,500)** | **–** | **–** | **–** | **–** | **(1,500)** |
| Appropriation to surplus reserve | | **–** | **–** | **–** | **249** | **–** | **(249)** | **–** |
| Final dividend approved in respect of the previous year | 25(b) | **–** | **–** | **–** | **–** | **–** | **(2,841)** | **(2,841)** |
| **Balance at 31 December 2016** | | **31,956** | **53,383** | **4,496** | **1,331** | **(1,104)** | **56,967** | **147,029** |

The notes on pages 54 to 117 form part of these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

**For the year ended 31 December 2016**
*(Expressed in Hong Kong dollars)*

| | Note | 2016 $'000 | 2015 $'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Cash generated from operations | 20(b) | 9,720 | 28,428 |
| Tax paid: | | | |
| – Hong Kong Profits Tax refund/(paid) | | 2,508 | (1,741) |
| – Tax paid outside Hong Kong | | (1,654) | (1,746) |
| **Net cash generated from operating activities** | | 10,574 | 24,941 |
| **Investing activities** | | | |
| Payment for the purchase of plant and equipment | | (2,495) | (2,521) |
| Cash advance to a joint venture | | – | (957) |
| Payment for purchases of held-to-maturity financial assets | | (184) | (678) |
| Proceeds from sale of plant and equipment | | 139 | 40 |
| Payment to acquire business, net of cash acquired | | – | (3,145) |
| Expenditure on development projects capitalised | | (11,200) | (14,950) |
| Interest received | | 101 | 67 |
| **Net cash used in investing activities** | | (13,639) | (22,144) |
| **Financing activities** | | | |
| Proceeds from new bank loans | | 10,500 | 23,872 |
| Repayment of bank loans | | (30,733) | (24,753) |
| Proceeds from shares issued under rights issue | | 40,478 | – |
| Payment of issuing expenses under rights issue | | (1,500) | – |
| Interest paid | | (1,519) | (1,360) |
| Dividends paid to equity shareholders of the Company | | (2,841) | (5,681) |
| **Net cash generated from/(used in) financing activities** | | 14,385 | (7,922) |
| **Net increase/(decrease) in cash and cash equivalents** | | 11,320 | (5,125) |
| **Cash and cash equivalents at 1 January** | | 29,805 | 35,671 |
| **Effect of foreign exchange rate changes** | | (574) | (741) |
| **Cash and cash equivalents at 31 December** | 20(a) | 40,551 | 29,805 |

The notes on pages 54 to 117 form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in Hong Kong dollars unless otherwise indicated)*

## 1 GENERAL INFORMATION

Advanced Card Systems Holdings Limited (the "Company") was incorporated in the Cayman Islands on 13 April 2000 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. Its registered office is located at P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands 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 consolidated financial statements for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in a joint venture.

## 2 SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

### (b) Basis of preparation of the financial statements

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

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (b) Basis of preparation of the financial statements *(continued)*

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.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

### (c) Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

### (d) Subsidiaries

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

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see note 2(e)).

# NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in Hong Kong dollars unless otherwise indicated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (d) Subsidiaries *(continued)*

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(k)(ii)).

### (e) Joint ventures

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(f) and (k)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In all other cases, when the Group ceases to have joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(g)).

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (f) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(k)(ii)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

### (g) Other investments in debt securities

Dated debt securities that the Group has the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated at amortised cost less impairment losses (see note 2(k)(i)).

### (h) Plant and equipment

Plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see note 2(k)(ii)).

Gains or losses arising from the retirement or disposal of an item of plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (h) Plant and equipment *(continued)*

Depreciation is calculated to write off the cost of items of plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

| | |
|---|---|
| – Leasehold improvements | Over the remaining of the leases |
| – Furniture and fixtures | 4–5 years |
| – Computer and office equipment | 4–5 years |
| – Mould | 4 years |
| – Motor vehicles | 4–5 years |

Both the useful life of an asset and its residual value, if any, are reviewed annually.

### (i) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 2(v)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(k)(ii)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (note 2(k)(ii)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

| | |
|---|---|
| – Customer relationships | 7 years |
| – Development costs | 4 years |
| – Technical know-how | 4 years |

Both the period and method of amortisation are reviewed annually.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (j) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

### (k) Impairment of assets

#### *(i) Impairment of investments in debt and equity securities and other receivables*

Investment in debt securities and other current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

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

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investment in a joint venture accounted for under equity method in the consolidated financial statements (see note 2(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(k)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(k)(ii).

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (k) Impairment of assets *(continued)*

#### *(i) Impairment of investments in debt and equity securities and other receivables (continued)*

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial assets where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

– For trade and other receivables carried at cost or amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of the asset), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt 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 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (k) Impairment of assets *(continued)*

#### *(ii) Impairment of other assets*

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– plant and equipment;

– intangible assets;

– goodwill;

– interest in a joint venture; and

– investment in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value 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 assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (k) Impairment of assets *(continued)*

#### *(ii) Impairment of other assets (continued)*

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

### (l) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs 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 costs 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 is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### (m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(k)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

### (o) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

### (q) Employee benefits

#### *(i) Short term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

#### *(ii) Defined benefit retirement plan obligations*

The Group's net obligation in respect of a defined benefit retirement plan is calculated by estimating the amount of future benefit that employees have earned in return for their services in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The calculation is performed 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 contributions to the plan.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (q) Employee benefits *(continued)*

#### *(ii) Defined benefit retirement plan obligations* *(continued)*

Service cost and net interest expense/(income) on the net defined benefit liability/(asset) are recognised in profit and loss and allocated by function as part of "cost of sales", "selling and distribution costs", "research and development expenses" or "administrative expenses". Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a plan are changed, 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 as an expense in profit and loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. Net interest expense/(income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability/(asset). The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations.

Remeasurements arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability/(asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability/(asset)).

#### *(iii) Termination benefits*

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

### (r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (r) Income tax *(continued)*

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

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 profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (r) Income tax *(continued)*

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

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

### (s) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

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

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

*(i) Sale of goods*

Revenue from the sales of goods (including smart card products, software and hardware) is recognised when the goods are delivered and the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

*(ii) Service fees*

Service fees are recognised when the related services are provided. Service fees exclude value added tax or other sales taxes.

*(iii) Interest income*

Interest income is recognised as it accrues using the effective interest method.

### (u) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that subsidiary outside Hong Kong is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (v) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing cost as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

### (w) Related parties

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group.

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

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) 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).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group.

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.

# NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in Hong Kong dollars unless otherwise indicated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (x) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

## 3 ACCOUNTING JUDGEMENTS AND ESTIMATES

Notes 14 and 23 contain information about the assumptions and their risk factors relating to goodwill impairment assessment and defined benefit retirement obligations. Other key sources of estimation uncertainty are as follows:

### (a) Impairment of plant and equipment and intangible assets

If circumstances indicate that the carrying values of plant and equipment and intangible assets may not be recoverable, the assets may be considered "impaired", and an impairment loss may be recognised in accordance with HKAS 36, *Impairment of assets*. Under HKAS 36, these assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of its fair value less costs of disposal and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, selling prices and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount. However, actual sales volumes, selling prices and operating costs may be different from assumptions which may require a material adjustment to the carrying amount of the assets affected. Details of the nature and carrying amounts of plant and equipment and intangible assets are disclosed in notes 12 and 13, respectively.

## 3 ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

### (b) Depreciation and amortisation

Plant and equipment and intangible assets (see notes 12 and 13) are depreciated and amortised on a straight-line basis over their estimated useful lives, after taking into account the estimated residual values, if any. The Group reviews the estimated useful lives and the estimated residual values, if any, of the assets at least annually in order to determine the amount of depreciation and amortisation expenses to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortisation expenses for future periods is adjusted if there are significant changes from previous estimates.

### (c) Impairment loss for doubtful debts

The Group maintains an allowance for doubtful debts for estimated losses resulting from the inability of the debtors to make required payments. The Group's allowances for doubtful debts are based on management's estimate of the recoverability of individual trade receivables with reference to ageing of overdue balances, repayment histories of individual debtors, existing customer-specific and market conditions and the fulfilment of repayment arrangements agreed with specific debtors. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimated.

### (d) Write down of inventories

The Group performs regular reviews of the carrying amounts of inventories as disclosed in note 17 with reference to historical consumption, expected future consumption and management judgement. Based on these reviews, write down of inventories will be made when the estimated net realisable value of inventories decline below the carrying amount. However, actual consumption may be different from estimation and profit or loss could be affected by differences in this estimation.

### (e) Deferred tax assets

Deferred tax assets are recognised for unused tax losses and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax benefits can be utilised, management's judgements is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered. Details of the nature and carrying amounts of deferred tax assets are disclosed in note 24(b).

## 4 REVENUE AND SEGMENT REPORTING

### (a) Revenue

The principal activities of the Group are the development, sales and distribution of smart card products, software and hardware and the provision of smart card related services.

Revenue mainly represents the invoiced value of products sold and services provided to customers, net of value added tax, returns and trade discounts. The amount of each significant category of revenue is as follows:

| | 2016 | 2015 |
|---|---|---|
| | *$'000* | *$'000* |
| Sale of smart card products, software and hardware | **149,535** | 232,874 |
| Smart card related services | **2,749** | 1,652 |
| | **152,284** | 234,526 |

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 2016 and 2015, revenue derived from these customers, including sales to entities which are known to the Group to be under common control, are as follows:

| | 2016 | 2015 |
|---|---|---|
| | *$'000* | *$'000* |
| Customer A* | **14,288** | 40,384 |
| Customer B* | **3,804** | 4,906 |
| Customer C | **N/A** | 33,487 |

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

### (b) Segment reporting

The Group's management assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are considered to be primarily the development, sales and distribution of smart card products, software and hardware and the provision of smart card related services. The management considers there is only one operating segment and, accordingly, no operating segment information is presented.

## 4 REVENUE AND SEGMENT REPORTING *(continued)*

### (b) Segment reporting *(continued)*

#### *(i) Geographic information*

The following table sets out information about the geographic location of (i) the Group's revenue from external customers and (ii) the Group's plant and equipment, intangible assets, goodwill, interest in a joint venture and non-current prepayment ("specified non-current assets"). The geographic location of customers is based on the location at which the services were provided or the goods are delivered. The geographic location of the specified non-current assets is based on the physical location of the asset, in the case of plant and equipment, the location of the operation to which they are allocated, in the case of intangible assets and goodwill, and the location of the operations, in the case of interest in a joint venture and non-current prepayment.

| | Revenue from external customers | | Specified non-current assets | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | ***$'000*** | *$'000* | ***$'000*** | *$'000* |
| The People's Republic of China ("PRC"), including Hong Kong and Macau (country of domicile) | **27,104** | 41,832 | **50,811** | 54,882 |
| United States | **15,533** | 22,842 | **–** | 17 |
| Italy | **14,301** | 40,392 | **–** | – |
| Republic of the Philippines | **11,416** | 34,590 | **1,578** | 2,772 |
| Other countries | **83,930** | 94,870 | **3** | 229 |
| | **125,180** | 192,694 | **1,581** | 3,018 |
| | **152,284** | 234,526 | **52,392** | 57,900 |

## 5 OTHER INCOME

| | **2016** | 2015 |
|---|---|---|
| | ***$'000*** | *$'000* |
| Income from benefits under a life insurance policy (note) | **–** | 10,140 |
| Interest income | **101** | 67 |
| Sundry income | **1,022** | 845 |
| | **1,123** | 11,052 |

Note: The Company received a payment of benefit from its insurer under the life insurance policy for the passing away of a former director of the Company on 22 May 2015.

## 6 (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging/(crediting):

| | 2016<br>*$'000* | 2015<br>*$'000* |
|---|---|---|
| *(a) Finance costs:* | | |
| Interest on bank loans and other borrowings | 1,519 | 1,360 |
| Less: Interest expense capitalised into development costs* | (463) | (576) |
| | 1,056 | 784 |

* The borrowing costs have been capitalised at a rate of 3% to 4% per annum (2015: 3% to 4%).

| | 2016<br>*$'000* | 2015<br>*$'000* |
|---|---|---|
| *(b) Staff costs:* | | |
| Contributions to defined contribution retirement plans | 2,672 | 3,913 |
| Net expenses recognised in respect of a defined benefit retirement plan (note 23) | 224 | 213 |
| Total retirement costs | 2,896 | 4,126 |
| Salaries, wages and other benefits | 54,700 | 64,903 |
| | 57,596 | 69,029 |
| Less: Amount capitalised into development costs | (9,064) | (12,922) |
| | 48,532 | 56,107 |

## 6 (LOSS)/PROFIT BEFORE TAXATION *(continued)*

(Loss)/profit before taxation is arrived at after charging/(crediting): *(continued)*

| | 2016 | 2015 |
|---|---|---|
| | *$'000* | *$'000* |
| *(c) Other items:* | | |
| Amortisation of intangible assets (note 13) | **11,687** | 10,964 |
| Depreciation (note 12) | **2,674** | 3,885 |
| Provision for/(reversal of) impairment losses | | |
| – trade and other receivables | **3,391** | (55) |
| – intangible assets | **1,961** | 189 |
| – goodwill | **800** | – |
| Auditors' remuneration | | |
| – audit services | **996** | 996 |
| – other services* | **288** | 71 |
| Operating lease charges: minimum lease payments | **5,740** | 5,937 |
| Net loss/(gain) on disposal of plant and equipment | **487** | (37) |
| Net foreign exchange loss | **747** | 1,739 |
| Cost of inventories (note 17(b)) | **77,049** | 116,190 |

* Of the auditors' remuneration for other services of $288,000, $280,000 was rendered for the rights issue completed during the year ended 31 December 2016 and was deducted against share premium (2015: $Nil) (note 25(c)).

# NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in Hong Kong dollars unless otherwise indicated)*

## 7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

| | 2016<br>*$'000* | 2015<br>*$'000* |
|---|---|---|
| **Current tax – Hong Kong Profits Tax** | | |
| Provision for the year | – | 30 |
| Over-provision in respect of prior years | (436) | (57) |
| | (436) | (27) |
| **Current tax – Philippines Income Tax** | | |
| Provision for the year | 100 | 1,168 |
| **Current tax – Other jurisdictions** | | |
| Provision for the year | 107 | 210 |
| Under-provision in respect of prior years | 165 | – |
| | 272 | 210 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences (note 24(b)) | (1,956) | 596 |
| | (2,020) | 1,947 |

## 7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(continued)*

### (a) Taxation in the consolidated statement of profit or loss represents: *(continued)*

Notes:

(i) The provision for Hong Kong Profits Tax for 2016 is calculated at 16.5% (2015: 16.5%) of the estimated assessable profits for the year.

(ii) The provision for Philippines Income Tax for 2016 is calculated at 30% (2015: 30%) of the estimated taxable income or 2% (2015: 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.

(iii) In accordance with the relevant PRC corporate income tax laws, regulations and implementation guidance notes, the statutory income tax rate applicable to the Company's subsidiaries in the PRC is 25%, except for the following companies:

(a) Logyi Limited ("Logyi")

Logyi is granted a tax holiday of two-year tax exemption followed by three-year 50% tax deduction starting from 2013. As a result, Logyi was exempted from corporate income tax for 2013 and 2014, and is subject to corporate income tax at 12.5% from 2015 to 2017 and at 25% from 2018 onwards.

(b) ACS Technologies (Shenzhen) Limited ("ACS Shenzhen")

ACS Shenzhen was granted the "high-technology enterprise" status and enjoys the preferential corporate income tax rate of 15% for three years between 2015 and 2017.

(iv) Taxation for other entities is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

## 7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(continued)*

(b) Reconciliation between tax expense and accounting (loss)/profit at applicable tax rates:

| | **2016** | 2015 |
|---|---|---|
| | ***$'000*** | *$'000* |
| (Loss)/profit before taxation | **(20,523)** | 22,251 |
| Notional tax on (loss)/profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned | **(3,409)** | 4,997 |
| Tax effect of non-deductible expenses | **1,440** | 770 |
| Tax effect of non-taxable income | **(30)** | (1,867) |
| Tax effect of unused tax losses not recognised | **894** | 109 |
| Tax effect of temporary differences not recognised | **(67)** | – |
| Tax effect of tax exemption/deduction from tax authority | **(652)** | (1,742) |
| Tax effect of utilisation of tax losses previously not recognised | **–** | (386) |
| Over-provision in respect of prior years | **(271)** | (57) |
| Others | **75** | 123 |
| Actual tax (credit)/expense | **(2,020)** | 1,947 |

## 8 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

| | 2016 | | | | |
|---|---|---|---|---|---|
| | Directors' fees | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement scheme contributions | Total |
| | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* |
| *Executive directors* | | | | | |
| Ms. Tsui Kam Ling | – | 1,080 | – | 18 | 1,098 |
| Mr. Wong Chi Ho | – | 1,068 | – | 18 | 1,086 |
| Mr. Wong Chi Kit | – | 1,068 | – | 18 | 1,086 |
| Mr. Tan Keng Boon (retired on 20 May 2016) | – | 391 | – | 8 | 399 |
| *Independent non-executive directors* | | | | | |
| Ms. Kaung Cheung Xi Dawn | 120 | – | – | – | 120 |
| Mr. Lo Kar Chun | 120 | – | – | – | 120 |
| Mr. Yim Kai Pung | 120 | – | – | – | 120 |
| | 360 | 3,607 | – | 62 | 4,029 |

## 8 DIRECTOR'S EMOLUMENTS *(continued)*

| | 2015 | | | | |
|---|---|---|---|---|---|
| | Directors' fees | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement scheme contributions | Total |
| | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* |
| *Executive directors* | | | | | |
| Mr. Wong Yiu Chu (resigned on 24 March 2015) | – | 416 | – | – | 416 |
| Ms. Tsui Kam Ling | – | 1,080 | – | 18 | 1,098 |
| Mr. Wong Chi Ho (appointed on 24 March 2015) | – | 806 | – | 14 | 820 |
| Mr. Wong Chi Kit (appointed on 24 March 2015) | – | 806 | – | 14 | 820 |
| Mr. Tan Keng Boon | – | 1,009 | – | 18 | 1,027 |
| *Non-executive director* | | | | | |
| Mr. Wong Yiu Chu (redesignated on 24 March 2015 and passed away on 30 March 2015) | – | – | – | – | – |
| *Independent non-executive directors* | | | | | |
| Ms. Kaung Cheung Xi Dawn (appointed on 24 March 2015) | 92 | – | – | – | 92 |
| Mr. Lo Kar Chun | 120 | – | – | – | 120 |
| Mr. Yim Kai Pung | 120 | – | – | – | 120 |
| Mr. Wong Yick Man, Francis (retired on 29 April 2015) | 40 | – | – | – | 40 |
| | 372 | 4,117 | – | 64 | 4,553 |

## 9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2015: four) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other two individuals (2015: one individual) are as follows:

| | **2016** | 2015 |
|---|---|---|
| | ***$'000*** | *$'000* |
| Salaries and other emoluments | **1,812** | 944 |
| Retirement scheme contributions | **36** | 18 |
| Discretionary bonuses | **45** | – |
| | **1,893** | 962 |

The emoluments of the two individuals (2015: one individual) with the highest emoluments is within the following band:

| | **2016** | 2015 |
|---|---|---|
| | ***Number of individuals*** | *Number of individuals* |
| $1,000,001 to $1,500,000 | **1** | – |
| $Nil to $1,000,000 | **1** | 1 |

## 10 OTHER COMPREHENSIVE INCOME

Tax effects relating to each component of other comprehensive income:

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Before-tax amount *$'000* | Tax expense *$'000* | Net-of-tax amount *$'000* | Before-tax amount *$'000* | Tax expense *$'000* | Net-of-tax amount *$'000* |
| Exchange differences on translation of financial statements of foreign operations | (1,423) | – | (1,423) | (828) | – | (828) |
| Remeasurement of defined benefit obligations | (47) | 15 | (32) | (47) | 15 | (32) |
| | (1,470) | 15 | (1,455) | (875) | 15 | (860) |

## 11 (LOSS)/EARNINGS PER SHARE

### (a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of $18,503,000 (2015: profit attributable to ordinary equity shareholders of the Company of $20,304,000) and the weighted average of 295,202,000 ordinary shares (2015: 291,602,000 ordinary shares (restated)) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

| | 2016 *'000* | 2015 *'000* (restated)# |
|---|---|---|
| Issued ordinary shares at 1 January | 284,058 | 284,058 |
| Effect of rights issue | 11,144 | 7,544 |
| Weighted average number of ordinary shares at 31 December | 295,202 | 291,602 |

# Comparative figures for the weighted average number of ordinary shares for the year ended 31 December 2015 have been adjusted retrospectively for the effect of the rights issue completed during the year ended 31 December 2016.

### (b) Diluted (loss)/earnings per share

Diluted (loss)/earnings per share for the year ended 31 December 2016 and 2015 are the same as the basic (loss)/earnings per share as there are no dilutive potential ordinary shares.

# NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in Hong Kong dollars unless otherwise indicated)*

## 12 PLANT AND EQUIPMENT

| | Leasehold improvements | Furniture and fixtures | Computer and office equipment | Mould | Motor vehicles | Total |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Cost:** | | | | | | |
| At 1 January 2015 | 2,837 | 1,593 | 18,044 | 9,800 | 960 | 33,234 |
| Exchange adjustments | (98) | (42) | (235) | – | (19) | (394) |
| Additions | 690 | 228 | 581 | 1,022 | – | 2,521 |
| Disposals | (183) | (118) | (882) | – | – | (1,183) |
| At 31 December 2015 | 3,246 | 1,661 | 17,508 | 10,822 | 941 | 34,178 |
| **Accumulated depreciation:** | | | | | | |
| At 1 January 2015 | 2,831 | 1,369 | 13,541 | 7,612 | 118 | 25,471 |
| Exchange adjustments | (81) | (31) | (176) | – | (5) | (293) |
| Charge for the year | 187 | 139 | 2,165 | 1,179 | 215 | 3,885 |
| Written back on disposals | (183) | (117) | (880) | – | – | (1,180) |
| At 31 December 2015 | 2,754 | 1,360 | 14,650 | 8,791 | 328 | 27,883 |
| **Net book value:** | | | | | | |
| At 31 December 2015 | 492 | 301 | 2,858 | 2,031 | 613 | 6,295 |
| **Cost:** | | | | | | |
| At 1 January 2016 | 3,246 | 1,661 | 17,508 | 10,822 | 941 | 34,178 |
| Exchange adjustments | (107) | (54) | (297) | – | (15) | (473) |
| Additions | 45 | – | 1,217 | 1,233 | – | 2,495 |
| Disposals | (974) | (327) | (3,271) | – | (478) | (5,050) |
| At 31 December 2016 | 2,210 | 1,280 | 15,157 | 12,055 | 448 | 31,150 |
| **Accumulated depreciation:** | | | | | | |
| At 1 January 2016 | 2,754 | 1,360 | 14,650 | 8,791 | 328 | 27,883 |
| Exchange adjustments | (72) | (47) | (230) | – | (5) | (354) |
| Charge for the year | 333 | 44 | 1,091 | 1,041 | 165 | 2,674 |
| Written back on disposals | (961) | (194) | (2,960) | – | (309) | (4,424) |
| At 31 December 2016 | 2,054 | 1,163 | 12,551 | 9,832 | 179 | 25,779 |
| **Net book value:** | | | | | | |
| At 31 December 2016 | 156 | 117 | 2,606 | 2,223 | 269 | 5,371 |

## 13 INTANGIBLE ASSETS

| | Development costs | Customer relationships | Technical know-how | Total |
|---|---|---|---|---|
| | *$'000* | *$'000* | *$'000* | *$'000* |
| **Cost:** | | | | |
| At 1 January 2015 | 83,951 | 2,503 | 1,950 | 88,404 |
| Capitalised during the year | 15,526 | – | – | 15,526 |
| At 31 December 2015 | 99,477 | 2,503 | 1,950 | 103,930 |
| **Accumulated amortisation:** | | | | |
| At 1 January 2015 | 45,107 | 178 | 244 | 45,529 |
| Charge for the year | 10,119 | 358 | 487 | 10,964 |
| Impairment loss | 189 | – | – | 189 |
| At 31 December 2015 | 55,415 | 536 | 731 | 56,682 |
| **Net book value:** | | | | |
| At 31 December 2015 | 44,062 | 1,967 | 1,219 | 47,248 |
| **Cost:** | | | | |
| At 1 January 2016 | 99,477 | 2,503 | 1,950 | 103,930 |
| Capitalised during the year | 11,663 | – | – | 11,663 |
| At 31 December 2016 | 111,140 | 2,503 | 1,950 | 115,593 |
| **Accumulated amortisation:** | | | | |
| At 1 January 2016 | 55,415 | 536 | 731 | 56,682 |
| Charge for the year | 10,842 | 358 | 487 | 11,687 |
| Impairment loss | 1,961 | – | – | 1,961 |
| At 31 December 2016 | 68,218 | 894 | 1,218 | 70,330 |
| **Net book value:** | | | | |
| At 31 December 2016 | 42,922 | 1,609 | 732 | 45,263 |

## 13 INTANGIBLE ASSETS *(continued)*

The amortisation charges of $10,842,000 (2015: $10,119,000) and $845,000 (2015: $845,000) for the year are included in "research and development expenses" and "administrative expenses" respectively in the consolidated statement of profit or loss.

During 2016, the directors assessed the recoverable amounts of projects under development. Based on their review, the net book value of certain projects under development amounting to $1,961,000 (2015: $189,000) was fully written down as it is estimated that no future economic benefits will be generated from these projects due to change in market demand.

## 14 GOODWILL

| | *$'000* |
|---|---|
| Cost: | |
| At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016 | 1,972 |
| Accumulated impairment loss: | |
| At 1 January 2015, 31 December 2015 and 1 January 2016 | – |
| Impairment loss | 800 |
| At 31 December 2016 | 800 |
| Carrying amount: | |
| **At 31 December 2016** | **1,172** |
| At 31 December 2015 | 1,972 |

### Impairment test for cash-generating unit containing goodwill

Goodwill arose from the acquisition of certain assets and liabilities from independent third parties in the PRC in prior year. Therefore it is allocated to the Group's individual cash-generating unit ("CGU") of TaptoPay (Shenzhen) Limited that is expected to benefit from the business combination.

The recoverable amount of the CGU is determined based on value-in-use calculation. The calculation uses cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an annual rate of 0% (2015: 3%) for the business in which the CGU operates. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

# NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in Hong Kong dollars unless otherwise indicated)*

## 14 GOODWILL *(continued)*

Key assumptions used for the value-in-use calculation:

| | 2016 | 2015 |
|---|---|---|
| Growth rate | 0% | 3–4% |
| Pre-tax discount rate | 18% | 21% |

The growth rate is determined by management based on past performance. The discount rate used is pre-tax and reflects specific risks relating to the segment.

As the CGU has been reduced to its recoverable amount of $1,172,000, any adverse change in the key assumptions on which the recoverable amount is based would result in further impairment losses.

## 15 INVESTMENTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

| | | | Proportion of ownership interest | | | |
|---|---|---|---|---|---|---|
| Name of company | Place of incorporation/ establishment and business | Particulars of issued and paid up capital | Group's effective interest % | Held by the Company % | Held by a subsidiary % | Principal activities |
| Advanced Card Systems Limited | Hong Kong | 18,000,000 shares | 100 | 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 | 100 shares of JPY1,000 each | 100 | – | 100 | Sales and distribution of smart card products, software and hardware and the provision of smart card related services in Japan |

(Expressed in Hong Kong dollars unless otherwise indicated)

## 15 INVESTMENTS IN SUBSIDIARIES *(continued)*

| | | | Proportion of ownership interest | | | |
|---|---|---|---|---|---|---|
| Name of company | Place of incorporation/ establishment and business | Particulars of issued and paid up capital | Group's effective interest % | Held by the Company % | Held by a subsidiary % | Principal activities |
| ACS Technologies Limited | Hong Kong | 1 share | 100 | 100 | – | Development, sales and distribution of smart card products, software and hardware and the provision of smart card related services in the Republic of the Philippines |
| ACS Shenzhen | PRC | Registered capital of HK$14,000,000 | 100 | – | 100 | Development, sales and distribution of smart card products, software and hardware and the provision of smart card related services in the PRC |
| Logyi | PRC | Registered capital of HK$3,500,000 | 100 | – | 100 | Development of smart card products, software and hardware and the provision of smart card related services in the PRC |
| TaptoPay Limited | Hong Kong | 1 share | 100 | – | 100 | Development and provision of products and solutions for automatic revenue collection in Hong Kong |
| TaptoPay (Shenzhen) Limited | PRC | Registered capital of HK$13,100,000 | 100 | – | 100 | Development, sales and distribution of smart card products, software and hardware and the provision of smart card related services in the PRC |

# NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in Hong Kong dollars unless otherwise indicated)*

## 16 INTEREST IN A JOINT VENTURE

| | 2016 | 2015 |
|---|---|---|
| | *$'000* | *$'000* |
| Share of net assets | – | 1,051 |
| Non-current receivables from a joint venture | 209 | 957 |
| | 209 | 2,008 |

The non-current receivables from a joint venture are unsecured, interest-free and have no fixed terms of repayment.

Details of the Group's interest in a joint venture, which is accounted for using the equity method in the consolidated financial statements, are as follows:

| | | | | Proportion of ownership interest | | | |
|---|---|---|---|---|---|---|---|
| Name of joint venture | Form of business structure | Place of incorporation and business | Particulars of issued and paid up capital | Group's effective interest | Held by the Company | Held by a subsidiary | Principal activity |
| | | | | % | % | % | |
| Goldpac ACS Technologies Inc. ("GATI") | Incorporated | Republic of the Philippines | 350,000 shares of 100 Pesos each | 45 | – | 45 | Card personalisation (Note) |

Note: GATI was established by the Group with two other secure payment product suppliers to expand its smart card business in the Republic of the Philippines.

GATI, the only joint venture in which the Group participates, is an unlisted corporate entity whose quoted market price is not available.

GATI does not have a significant financial impact on the Group's results of operations and financial position.

# NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in Hong Kong dollars unless otherwise indicated)*

## 17 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

| | 2016 | 2015 |
|---|---|---|
| | *$'000* | *$'000* |
| Raw materials | **15,253** | 16,707 |
| Work in progress | **709** | 1,111 |
| Finished goods | **14,036** | 16,730 |
| | **29,998** | 34,548 |

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

| | 2016 | 2015 |
|---|---|---|
| | *$'000* | *$'000* |
| Carrying amounts of inventories sold | **75,723** | 114,780 |
| Write down of inventories | **1,326** | 1,410 |
| | **77,049** | 116,190 |

## 18 TRADE AND OTHER RECEIVABLES

| | 2016 | 2015 |
|---|---|---|
| | *$'000* | *$'000* |
| Trade receivables | **48,335** | 73,030 |
| Less: Allowance for doubtful debts (note 18(b)) | **(327)** | (630) |
| | **48,008** | 72,400 |
| Prepayments | **3,268** | 1,317 |
| Deposits paid | **1,644** | 1,913 |
| Amount due from a joint venture | **2,862** | 1,025 |
| Other receivables | **862** | 1,886 |
| Less: Allowance for doubtful debts (note 18(b)) | **–** | (61) |
| | **56,644** | 78,480 |

## 18 TRADE AND OTHER RECEIVABLES *(continued)*

The amount of the Group's other receivables, deposits and prepayments expected to be recovered or recognised as expense after more than one year is $301,000 (2015: $614,000). All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

### (a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade receivables, based on the invoice date and net of allowance for doubtful debts, is as follows:

| | **2016** | 2015 |
|---|---|---|
| | ***$'000*** | *$'000* |
| Within 1 month | **17,650** | 36,407 |
| 1 to 2 months | **5,647** | 13,447 |
| 2 to 3 months | **2,695** | 1,667 |
| 3 to 12 months | **1,090** | 18,094 |
| Over 1 year | **20,926** | 2,785 |
| | **48,008** | 72,400 |

Trade receivables are generally due within 7 days to 3 months from the date of billing. Trade receivables in relation to sales of software and sales under solution business are due according to respective payment terms, which may exceed 3 months. Further details on the Group's credit policy are set out in note 26(a).

## 18 TRADE AND OTHER RECEIVABLES *(continued)*

### (b) Impairment of trade and other receivables

Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivables directly (see note 2(k)(i)).

The movement in the allowance for doubtful debts during the year is as follows:

| | Trade receivables | | Other receivables | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | ***$'000*** | *$'000* | ***$'000*** | *$'000* |
| At 1 January | **630** | 685 | **61** | 64 |
| Exchange adjustments | **–** | – | **–** | (3) |
| Provision for/(reversal of) impairment losses | **2,953** | (55) | **438** | – |
| Uncollectable amounts written off | **(3,256)** | – | **(499)** | – |
| At 31 December | **327** | 630 | **–** | 61 |

At 31 December 2016, the Group's trade receivables of $327,000 (2015: $630,000) and other receivables of $Nil (2015: $61,000) were individually determined to be impaired. The individually impaired receivables are related to customers and other debtors that were in financial difficulties and management assessed that the balances from these debtors are irrecoverable. The Group does not hold any collateral over these balances.

## 18 TRADE AND OTHER RECEIVABLES *(continued)*

### (c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

| | 2016<br>*$'000* | 2015<br>*$'000* |
|---|---|---|
| Neither past due nor impaired | **23,459** | 41,477 |
| Less than 1 month past due | **3,664** | 18,504 |
| 1 to 3 months past due | **794** | 2,562 |
| More than 3 months but less than 12 months past due | **9,367** | 7,813 |
| More than 1 year past due | **10,724** | 2,044 |
| | **24,549** | 30,923 |
| | **48,008** | 72,400 |

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, 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 fully recoverable.

## 19 HELD-TO-MATURITY FINANCIAL ASSETS

| | 2016 | 2015 |
|---|---|---|
| | *$'000* | *$'000* |
| Treasury bills, at amortised cost | **861** | 730 |

Treasury bills are listed outside Hong Kong and have a fixed yield of 1.525% (2015: 2.015%) per annum and will mature on 8 March 2017 (2015: 6 January 2016). The market value of these held-to-maturity financial assets is $810,000 (2015: $730,000).

## 20 CASH AND CASH EQUIVALENTS

### (a) Cash and cash equivalents comprise:

| | 2016 | 2015 |
|---|---|---|
| | *$'000* | *$'000* |
| Cash at bank and on hand | **30,772** | 38,493 |
| Bank deposits maturing within three months when placed | **9,779** | 448 |
| Cash and cash equivalents in the consolidated statement of financial position | **40,551** | 38,941 |
| Unsecured bank overdrafts (note 22) | **–** | (9,136) |
| Cash and cash equivalents in the consolidated cash flow statement | **40,551** | 29,805 |

As at 31 December 2016, cash at bank and deposits of $4,963,000 (2015: $6,907,000) were placed with banks in the PRC. Remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

## 20 CASH AND CASH EQUIVALENTS *(continued)*

### (b) Reconciliation of (loss)/profit before taxation to cash generated from operations:

| | Note | 2016<br>*$'000* | 2015<br>*$'000* |
|---|---|---|---|
| (Loss)/profit before taxation | | **(20,523)** | 22,251 |
| Adjustments for: | | | |
| Depreciation | 6(c) | **2,674** | 3,885 |
| Amortisation of intangible assets | 6(c) | **11,687** | 10,964 |
| Provision of/(reversal of) impairment losses on trade and other receivables | 6(c) | **3,391** | (55) |
| Impairment losses on intangible assets | 13 | **1,961** | 189 |
| Impairment losses on goodwill | 14 | **800** | – |
| Finance costs | 6(a) | **1,056** | 784 |
| Interest income | 5 | **(101)** | (67) |
| Net loss/(gain) on disposal of plant and equipment | 6(c) | **487** | (37) |
| Share of results of a joint venture | | **1,639** | 1,358 |
| Effect of foreign exchange loss | | **141** | 135 |
| Changes in working capital: | | | |
| Decrease in inventories | | **4,126** | 5,326 |
| Decrease/(increase) in trade and other receivables | | **15,253** | (25,767) |
| (Decrease)/increase in trade and other payables | | **(12,927)** | 9,404 |
| Increase in employee retirement benefit obligations | | **56** | 58 |
| Cash generated from operations | | **9,720** | 28,428 |

## 21 TRADE AND OTHER PAYABLES

| | 2016 | 2015 |
|---|---|---|
| | *$'000* | *$'000* |
| Trade payables | 12,083 | 24,171 |
| Accruals | 5,623 | 9,475 |
| Deposits received | 1,790 | 1,738 |
| | 19,496 | 35,384 |

All of the trade and other payables are expected to be settled within one year.

As of the end of the reporting period, the ageing of trade payables, based on the invoice date, is as follows:

| | 2016 | 2015 |
|---|---|---|
| | *$'000* | *$'000* |
| Within 1 month | 6,400 | 11,003 |
| 1 to 3 months | 4,958 | 12,422 |
| 3 months to 1 year | 309 | 436 |
| Over 1 year | 416 | 310 |
| | 12,083 | 24,171 |

## 22 BANK LOANS AND OVERDRAFTS

At 31 December 2016, the bank loans and overdrafts of the Group were as follows:

| | 2016<br>*$'000* | 2015<br>*$'000* |
|---|---|---|
| Bank overdrafts (note 20(a)) | | |
| – unsecured | – | 9,136 |
| Bank loans | | |
| – secured | 14,222 | 34,455 |
| | 14,222 | 43,591 |

As at 31 December 2016, the bank loans were secured by a corporate guarantee from the Company.

The bank loans and overdrafts were repayable as follows:

| | 2016<br>*$'000* | 2015<br>*$'000* |
|---|---|---|
| Within 1 year or on demand | 8,500 | 38,314 |
| Non-current portion of bank loans repayable on demand | 5,722 | 5,277 |
| | 14,222 | 43,591 |

All of the non-current portion of term loans from banks are repayable on demand and carried at amortised cost and none of these non-current borrowings is expected to be settled within one year.

Certain banking facilities of the Group are subject to the fulfilment of covenants relating to certain of the Group's financial ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 26(b). As at 31 December 2016 and 2015, none of the covenants relating to drawn down facilities had been breached.

## 23 EMPLOYEE RETIREMENT BENEFITS

The Group operates and participates in a number of defined contribution and defined benefit retirement plans in and outside Hong Kong.

### (a) Defined contribution retirement plans

(i) The Group operates a Mandatory Provident Fund scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by an independent corporate trustee. Under the MPF scheme, the Group and the employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $30,000. Contributions to the MPF scheme vest immediately.

(ii) Pursuant to the relevant labour rules and regulations in the PRC, employees of the subsidiaries in the PRC are members of the central pension scheme operated by the PRC municipal government authorities. The Group is required to contribute a certain percentage of employees' remuneration to the central pension scheme to fund the benefits. The only obligation for the Group with respect to the central pension scheme is the associated required contribution under the central pension scheme. Contributions to the plan vest immediately.

### (b) Defined benefit retirement plan

The Group makes contributions to a separate defined benefit retirement plan for qualifying employees in the Republic of the 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. 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. The benefits are based on the qualifying employees' latest monthly salary and the number of years of services.

The plan is funded by contributions from the Group in accordance with an independent actuary's recommendation based on annual actuarial valuation. The latest actuarial valuation of the plan was at 31 December 2016 and was prepared by independent professionally qualified actuaries at 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. The actuarial valuation indicates that the Group's obligation under this defined benefit retirement plan is 37% (2015: 39%) covered by the plan assets held by the trustee.

# NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in Hong Kong dollars unless otherwise indicated)*

## 23 EMPLOYEE RETIREMENT BENEFITS *(continued)*

### (b) Defined benefit retirement plan *(continued)*

The plan exposes the Group to actuarial risks, such as interest rate risk, investment risk and longevity risk.

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

| | 2016<br>*$'000* | 2015<br>*$'000* |
|---|---|---|
| Present value of wholly funded obligations | 1,375 | 1,343 |
| Fair value of plan assets | (511) | (529) |
| | 864 | 814 |

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 Group expects to pay $156,000 in contributions to defined benefit retirement plan in 2017 (2015: $159,000).

(ii) The major categories of the plan assets at the end of the reporting period are as follows:

| | 2016<br>*$'000* | 2015<br>*$'000* |
|---|---|---|
| Unit investment trust funds | 511 | 529 |

The plan assets are valued by the fund manager of the pension fund at fair value using the mark-to-market valuation.

(iii) Movements in the present value of the defined benefit obligation

| | 2016<br>*$'000* | 2015<br>*$'000* |
|---|---|---|
| At 1 January | 1,343 | 1,140 |
| Remeasurement: | | |
| – Actuarial loss arising from changes in financial assumptions | 25 | 15 |
| Benefits paid by the plan | (156) | – |
| Current service cost | 186 | 183 |
| Interest cost | 64 | 51 |
| Exchange difference | (87) | (46) |
| At 31 December | 1,375 | 1,343 |

The weighted average duration of the defined benefit obligation is 13.1 years (2015: 13.8 years).

# NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in Hong Kong dollars unless otherwise indicated)*

## 23 EMPLOYEE RETIREMENT BENEFITS *(continued)*

### (b) Defined benefit retirement plan *(continued)*

(iv) Movements in plan assets

| | **2016** | 2015 |
|---|---|---|
| | ***$'000*** | *$'000* |
| At 1 January | **529** | 403 |
| Contributions paid to the plan | **168** | 154 |
| Benefits paid by the plan | **(156)** | – |
| Return on plan assets, excluding interest income | **(22)** | (32) |
| Interest income | **26** | 21 |
| Exchange difference | **(34)** | (17) |
| At 31 December | **511** | 529 |

(v) Amounts recognised in the consolidated statement of profit or loss and other comprehensive income are as follows:

| | **2016** | 2015 |
|---|---|---|
| | ***$'000*** | *$'000* |
| Current service cost | **186** | 183 |
| Net interest on net defined benefit liability | **38** | 30 |
| Total amounts recognised in profit or loss | **224** | 213 |
| Actuarial losses | **25** | 15 |
| Return on plan assets, excluding interest income | **22** | 32 |
| Total amounts recognised in other comprehensive income | **47** | 47 |
| Total defined benefit costs | **271** | 260 |

The current service cost and the net interest on net defined benefit liability are recognised in the administrative expenses in the consolidated statement of profit or loss.

## 23 EMPLOYEE RETIREMENT BENEFITS *(continued)*

### (b) Defined benefit retirement plan *(continued)*

(vi) Significant actuarial assumptions and sensitivity analysis are as follows:

| | **2016** | 2015 |
|---|---|---|
| Discount rate | **5.38%** | 4.89% |
| Future salary increases | **5% per annum** | 5% per annum |

The below analysis shows how the defined benefit obligation as at 31 December 2016 would have increased/(decreased) as a result of 1% change in the significant actuarial assumptions:

| | **2016** | | 2015 | |
|---|---|---|---|---|
| | **Increase in 1%** | **Decrease in 1%** | Increase in 1% | Decrease in 1% |
| | ***$'000*** | ***$'000*** | *$'000* | *$'000* |
| Discount rate | **(166)** | **193** | (170) | 199 |
| Future salary increases | **178** | **(157)** | 183 | (161) |

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

# NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in Hong Kong dollars unless otherwise indicated)*

## 24 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### (a) Current taxation in the consolidated statement of financial position represents:

| | 2016<br>*$'000* | 2015<br>*$'000* |
|---|---|---|
| Current tax recoverable | 593 | 2,517 |
| Current tax payable | (31) | (1,142) |
| | 562 | 1,375 |

### (b) Deferred tax assets/(liabilities) recognised:

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

| | Depreciation allowances in excess of the related depreciation<br>*$'000* | Employee retirement benefits<br>*$'000* | Application solutions<br>*$'000* | Customer relationship<br>*$'000* | Technical know-how<br>*$'000* | Tax losses<br>*$'000* | Others<br>*$'000* | Total<br>*$'000* |
|---|---|---|---|---|---|---|---|---|
| **Deferred tax arising from:** | | | | | | | | |
| At 1 January 2015 | (642) | 256 | – | (581) | (427) | – | 659 | (735) |
| Exchange adjustments | – | – | – | – | – | – | (19) | (19) |
| (Credited)/charged to profit or loss | 139 | 15 | (923) | 89 | 122 | 399 | (437) | (596) |
| Credited to reserves | – | 15 | – | – | – | – | – | 15 |
| At 31 December 2015 | (503) | 286 | (923) | (492) | (305) | 399 | 203 | (1,335) |
| At 1 January 2016 | (503) | 286 | (923) | (492) | (305) | 399 | 203 | (1,335) |
| Exchange adjustments | (10) | (17) | – | – | – | – | (6) | (33) |
| Credited to profit or loss | 241 | 12 | 415 | 89 | 122 | 934 | 143 | 1,956 |
| Credited to reserves | – | 15 | – | – | – | – | – | 15 |
| At 31 December 2016 | (272) | 296 | (508) | (403) | (183) | 1,333 | 340 | 603 |

## 24 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

### (b) Deferred tax assets/(liabilities) recognised: *(continued)*

*Reconciliation to the consolidated statement of financial position*

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Net deferred tax assets recognised in the consolidated statement of financial position | 755 | 489 |
| Net deferred tax liabilities recognised in the consolidated statement of financial position | (152) | (1,824) |
| | 603 | (1,335) |

### (c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(r), the Group has not recognised deferred tax assets in respect of tax losses and other temporary differences of $11,242,000 (2015: $6,923,000) as it is not probable that future taxable profits against which the losses and other temporary differences can be utilised will be available in the relevant tax jurisdictions and entities.

Included in unrecognised tax losses and other temporary differences is an amount of $2,206,000 (2015: $878,000) which can be carried forward up to five years from the year in which the loss originated. The remaining balance of $9,036,000 (2015: $6,045,000) does not expire under current tax legislation.

### (d) Deferred tax liabilities not recognised

At 31 December 2016, temporary differences relating to undistributed profits of subsidiaries amounted to $14,587,000 (2015: $12,575,000). Deferred tax liabilities of $768,000 (2015: $875,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

## 25 CAPITAL, RESERVES AND DIVIDENDS

### (a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

*The Company*

| | Note | Share capital *$'000* | Share premium *$'000* | Retained profits *$'000* | Total equity *$'000* |
|---|---|---|---|---|---|
| Balance at 1 January 2015 | | 28,406 | 17,955 | 14,288 | 60,649 |
| Changes in equity for the year: | | | | | |
| Final dividend approved in respect of the previous year | 25(b)(ii) | – | – | (5,681) | (5,681) |
| Total comprehensive income for the year | | – | – | 6,038 | 6,038 |
| Balance at 31 December 2015 | | 28,406 | 17,955 | 14,645 | 61,006 |
| Balance at 1 January 2016 | | 28,406 | 17,955 | 14,645 | 61,006 |
| Changes in equity for the year: | | | | | |
| Final dividend approved in respect of the previous year | 25(b)(ii) | – | – | (2,841) | (2,841) |
| Shares issued under rights issue | 25(c) | 3,550 | 36,928 | – | 40,478 |
| Transaction costs attributable to issue of shares under rights issue | 25(c) | – | (1,500) | – | (1,500) |
| Total comprehensive income for the year | | – | – | (1,776) | (1,776) |
| Balance at 31 December 2016 | | 31,956 | 53,383 | 10,028 | 95,367 |

# NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in Hong Kong dollars unless otherwise indicated)*

## 25 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

### (b) Dividends

*(i) Dividends payable to equity shareholders of the Company attributable to the year*

| | 2016 | 2015 |
|---|---|---|
| | *$'000* | *$'000* |
| Final dividend proposed after the end of the reporting period of nil cent per ordinary share (2015: 1.0 cent per ordinary share) | – | 2,841 |

*(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year*

| | 2016 | 2015 |
|---|---|---|
| | *$'000* | *$'000* |
| Final dividend in respect of the previous financial year, approved and paid during the year, of 1.0 cent per ordinary share (2015: 2.0 cents per ordinary share) | 2,841 | 5,681 |

The final dividend approved and paid during the year is based on the total number of issued shares at the date of Annual General Meeting.

## 25 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

### (c) Share capital

*Authorised and issued share capital*

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | **Number of shares** | **Amount** | Number of shares | Amount |
| | ***'000*** | ***$'000*** | *'000* | *$'000* |
| Authorised: | | | | |
| Ordinary shares of $0.1 each | **1,000,000** | **100,000** | 1,000,000 | 100,000 |
| *Ordinary shares, issued and fully paid:* | | | | |
| At 1 January | **284,058** | **28,406** | 284,058 | 28,406 |
| Issue of shares under rights issue | **35,507** | **3,550** | – | – |
| At 31 December | **319,565** | **31,956** | 284,058 | 28,406 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

On 14 November 2016, the Company issued and allotted 35,507,000 ordinary shares of $0.01 each to qualifying shareholders pursuant to the rights issue on the basis of one rights share for every eight existing shares held by the qualifying shareholders on 20 October 2016 at the subscription price of $1.14 per rights share for a total gross cash consideration of $40,478,000. Among the related issue expenses of $1,900,000, $1,500,000 that were directly attributable to the issue of new shares were deducted against share premium and the remaining $400,000 were included under "administrative expenses" in the consolidated statement of profit or loss.

## 25 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

### (d) Nature and purpose of reserves

*(i) Share premium*

Under the Companies Law (2009 Revision) of the Cayman Islands, the share premium of the Company is available for distributions or paying dividends to shareholders subject to the provisions of its memorandum and articles of association and provided that immediately following the payment of distribution or dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's articles of association, distribution shall be payable out of profits or other reserves, including the share premium account of the Company.

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.

*(ii) Merger reserve*

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

*(iii) Surplus reserve*

Pursuant to the applicable PRC regulations, PRC entity is required to appropriate 10% of its profit-after-tax (after offsetting prior year losses) to the reserve until such reserve reaches 50% of the registered capital. The transfer to the reserve must be made before distribution of dividends to shareholders. The surplus reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase registered capital of the PRC subsidiaries, provided that the balance after such issue is not less than 50% of its registered capital.

*(iv) Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 2(u).

### (e) Distributability of reserves

At 31 December 2016, the aggregate amount of reserve available for distribution to equity shareholders of the Company, including the distributable amounts disclosed in note 25(d)(i), was $63,411,000 (2015: $32,600,000).

## 25 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

### (f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a debt-to-capital ratio. For this purpose, the Group defines debt as the total of interest-bearing borrowings, and capital as all components of equity less unaccrued proposed dividends.

During 2016, the Group's strategy, which was unchanged from 2015, was to maintain sufficient capital to cover any net debt position by adjusting the amount of dividends paid to shareholders, issue new shares as well as issue of new debts or the redemption of existing debt. The debt-to-capital ratios at 31 December 2016 and 2015 were 10% and 33% respectively.

## 26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposures to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

### (a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposure to these credit risks are monitored on an on-going basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables in relation to sales of smart card products and hardware are generally due within seven days to three months from the date of billing. For sales of software and sales under solution business, specific payment term such as payment by instalment or credit term of more than three months may be granted, which depends on the trading history of customers and nature of the project. Normally, the Group does not obtain collateral from customers.

## 26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

### (a) Credit risk *(continued)*

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. At the end of the reporting period, 20% (2015: 23%) and 59% (2015: 58%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

The Group does not provide any guarantees which would expose the Group to credit risk.

The Group's cash at bank and bank deposits are placed with financial institutions with sound credit ratings, and the management consider the Group's exposure to credit risk on cash at bank and bank deposits is low.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 18.

### (b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management for daily operation, including placing short term bank deposits and raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. Cash surplus over operating needs are closely monitored and managed by the Group's central cash and treasury management system. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The Group's exposures to the liquidity risk and its policies for managing such risk were unchanged from the year ended 31 December 2015.

## 26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

### (b) Liquidity risk *(continued)*

The following table shows the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

| | 2016 Contractual undiscounted cash outflow | | | | |
|---|---|---|---|---|---|
| | Within 1 year or on demand | More than 1 year but less than 2 years | More than 2 years but less than 5 years | Total | Carrying amount |
| | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* |
| Trade and other payables (excluding receipt in advance) | 17,706 | – | – | 17,706 | 17,706 |
| Bank loans subject to repayment on demand clauses: scheduled repayments | 8,832 | 4,728 | 1,121 | 14,681 | 14,222 |
| | 26,538 | 4,728 | 1,121 | 32,387 | 31,928 |

| | 2015 Contractual undiscounted cash outflow | | | | |
|---|---|---|---|---|---|
| | Within 1 year or on demand | More than 1 year but less than 2 years | More than 2 years but less than 5 years | Total | Carrying Amount |
| | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* |
| Trade and other payables (excluding receipt in advance) | 33,646 | – | – | 33,646 | 33,646 |
| Bank loans and overdrafts subject to repayment on demand clauses: scheduled repayments | 29,899 | 3,453 | 1,965 | 35,317 | 34,455 |
| | 63,545 | 3,453 | 1,965 | 68,963 | 68,101 |

## 26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

### (c) Interest rate risk

The Group's interest rate risk arises primarily from bank loans and overdrafts. The Group's policy is to manage its interest rate risk to ensure there are no undue exposures to significant interest rate movements. The Group does not use derivative financial instruments to hedge its fixed and floating rate debt obligations. All of the interest-bearing borrowings of the Group as of 31 December 2016 and 2015 are variable rate instruments. The Group's interest rate profile as monitored by management is set out in (i) below.

#### *(i) Interest rate profile*

The following table details the interest rate profile of the Group's interest-bearing borrowings at the end of the reporting period:

| | **2016** | | 2015 | |
|---|---|---|---|---|
| | **Effective interest rate** | **Amount** | Effective interest rate | Amount |
| | **%** | ***$'000*** | % | *$'000* |
| *Variable rate borrowings:* | | | | |
| Bank loans and overdrafts | **3.26%–3.84%** | **14,222** | 2.88%–4.00% | 34,455 |

#### *(ii) Sensitivity analysis*

At 31 December 2016, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's loss after tax and decreased/increased the Group's retained profits by approximately $59,000 (2015: decreased/increased the Group's profit after tax and retained profits by $144,000).

The sensitivity analysis above indicates the instantaneous change in the Group's loss/profit after tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the end of the reporting period, the impact on the Group's loss/profit after tax (and retained profits) is estimated as an annualised impact on interest expense of such a change in interest rates.

The analysis is performed on the same basis as 2015.

# NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in Hong Kong dollars unless otherwise indicated)*

## 26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

### (d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States dollars ("USD"), Euros ("EUR") and Renminbi ("RMB").

#### *(i) Exposure to currency risk*

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in HKD, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

| | Exposure to foreign currencies (expressed in HKD) | | | | | |
|---|---|---|---|---|---|---|
| | **2016** | | | 2015 | | |
| | **USD** | **EUR** | **RMB** | USD | EUR | RMB |
| | ***$'000*** | ***$'000*** | ***$'000*** | *$'000* | *$'000* | *$'000* |
| Cash and cash equivalents | **23,319** | **1,475** | **1,434** | 17,505 | 2,148 | 600 |
| Amounts due from group companies | **21,242** | **–** | **6,064** | 13,041 | – | 19,496 |
| Trade and other receivables | **27,094** | **294** | **195** | 32,743 | 4,693 | 3,826 |
| Trade and other payables | **(3,186)** | **(703)** | **(4,673)** | (6,246) | (396) | (9,201) |
| | **68,469** | **1,066** | **3,020** | 57,043 | 6,445 | 14,721 |

## 26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

### (d) Currency risk *(continued)*

#### *(ii) Sensitivity analysis*

The following table indicates the instantaneous change in the Group's loss/profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the HKD and the USD would be materially unaffected by any changes in movement in value of the USD against other currencies.

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Increase/ (decrease) in foreign exchange rates | (Increase)/ decrease in loss after taxation and increase/ (decrease) in retained profits *$'000* | Increase/ (decrease) in foreign exchange rates | Increase/ (decrease) in profit after taxation and retained profits *$'000* |
| EUR | 5% | 44 | 5% | 269 |
| | (5)% | (44) | (5)% | (269) |
| RMB | 5% | 126 | 5% | 615 |
| | (5)% | (126) | (5)% | (615) |

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' loss/profit after tax and equity measured in the respective functional currencies, translated into HKD at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis as 2015.

## 26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

### (e) Fair value measurement

HKFRS 13, *Fair value measurement* categories fair value measurements into a three-level hierarchy. The level into which fair value is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

– Level 3 valuations: Fair value measured using significant unobservable inputs

At 31 December 2016, the fair value of the held-to-maturity treasury bills listed outside Hong Kong held by the Group was $810,000 (2015: $730,000) (see note 19). The costs of the held-to-maturity financial assets are not materially different from their fair values at 31 December 2016 and 2015. These instruments fall into level 1 of the fair value hierarchy described above.

During the years ended 31 December 2016 and 2015, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

All other financial assets and liabilities of the Group are carried at costs or amortised costs are not materially different from their fair values as at 31 December 2016 and 2015.

## 27 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2016 not provided for in the financial statements were as follows:

| | 2016 | 2015 |
|---|---|---|
| | *$'000* | *$'000* |
| Contracted for | **786** | 843 |

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. As at 31 December 2016, a deposit of $377,000 (2015: $377,000) was paid by the Group which was included in "Prepayment for available-for-sale securities" within non-current assets.

# NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in Hong Kong dollars unless otherwise indicated)*

## 27 COMMITMENTS *(continued)*

(b) At 31 December 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | 2016 | 2015 |
|---|---|---|
| | *$'000* | *$'000* |
| Within 1 year | **2,233** | 3,028 |
| After 1 year but within 5 years | **–** | 197 |
| | **2,233** | 3,225 |

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease upon expiry when all terms are renegotiated.

## 28 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions.

### Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's Directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

| | 2016 | 2015 |
|---|---|---|
| | *$'000* | *$'000* |
| Short-term employee benefits | **6,252** | 7,372 |
| Post-employment benefits | **116** | 126 |
| | **6,368** | 7,498 |

Total remuneration is included in "staff costs" (see note 6(b)).

## 29 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

On 9 January 2017, HNA EcoTech Pioneer Acquisition ("HNA EcoTech") entered into a Sale and Purchase Agreement to acquire 61.39% shareholding of the Company. The transaction was completed on 13 January 2017 and HNA EcoTech became controlling shareholder of the Company, details of which are set out in the announcements of the Company dated 12 January 2017 and 13 January 2017.

## 30 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

| | Note | 2016<br>*$'000* | 2015<br>*$'000* |
|---|---|---|---|
| **Non-current assets** | | | |
| Interests in subsidiaries | | **14,004** | 14,004 |
| Amount due from a subsidiary | | **81,245** | 46,862 |
| | | **95,249** | 60,866 |
| **Current assets** | | | |
| Other receivables | | **494** | 192 |
| Cash and cash equivalents | | **493** | 283 |
| | | **987** | 475 |
| **Current liabilities** | | | |
| Other payables | | **869** | 335 |
| **Net current assets** | | **118** | 140 |
| **Total assets less current liabilities** | | **95,367** | 61,006 |
| **NET ASSETS** | | **95,367** | 61,006 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 25(c) | **31,956** | 28,406 |
| Reserves | | **63,411** | 32,600 |
| **TOTAL EQUITY** | | **95,367** | 61,006 |

(Expressed in Hong Kong dollars unless otherwise indicated)

## 31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

| | Effective for accounting periods beginning on or after |
|---|---|
| Amendments to HKAS 7, *Statement of cash flows: Disclosure initiative* | 1 January 2017 |
| Amendments to HKAS 12, *Income taxes: Recognition of deferred tax assets for unrealised losses* | 1 January 2017 |
| HKFRS 9, *Financial instruments* | 1 January 2018 |
| HKFRS 15, *Revenue from contracts with customers* | 1 January 2018 |
| HKFRS 16, *Leases* | 1 January 2019 |

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

### HKFRS 9, Financial instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, *Financial instruments: Recognition and measurement*. HKFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities. Based on a preliminary assessment, the Group has identified impairment of financial assets to be an area that may be affected by the adoption of HKFRS 9.

## 31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 *(continued)*

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Group's trade receivables and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

### HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specifies the accounting for revenue from construction contracts. The Group is currently assessing the impacts of adopting HKFRS 15 on its financial statements. Based on the preliminary assessment, the Group has identified the following area which may be affected:

### (a) Timing of revenue recognition

The Group's revenue recognition policies are disclosed in note 2(t). Currently, revenue arising from the provision of services is recognised over time, whereas revenue from the sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. HKFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

(a) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(b) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(c) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

## 31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 *(continued)*

As a result of this change from the risk-and-reward approach to the contract-by-contract transfer-of-control approach, it is possible that once the Group adopts HKFRS 15 some of the Group's contracts that are currently recognised at a point in time may meet the HKFRS 15 criteria for revenue recognition over time. This will depend on the terms of the sales contract and the enforceability of any specific performance clauses in that contract, which may vary depending on the jurisdiction in which the contract would be enforced. It is also possible that for the remainder of the Group's contracts the point in time when revenue is recognised may be earlier or later than under the current accounting policy. However, further analysis is required to determine whether this change in accounting policy may have a material impact on the amounts reported in any given financial reporting period.

HKFRS 16, *Leases*

As disclosed in note 2(j), currently the Group classifies leases into operating leases.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

The Group is considering whether to adopt HKFRS 16 before its effective date of 1 January 2019. However, early adoption of HKFRS 16 is only permitted if this is no earlier than the adoption of HKFRS 15. It is therefore unlikely that HKFRS 16 will be adopted before the effective date of HKFRS 15, being 1 January 2018.

# FINANCIAL SUMMARY

*31 December 2016*

| | **2016** | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| RESULTS | | | | | |
| Revenue | **152,284** | 234,526 | 246,323 | 194,360 | 160,855 |
| Cost of sales and services provided | **78,095** | 118,287 | 124,466 | 81,340 | 74,009 |
| Gross profit | **74,189** | 116,239 | 121,857 | 113,020 | 86,846 |
| Gross profit margin | **49%** | 50% | 49% | 58% | 54% |
| (Loss)/profit for the year | **(18,503)** | 20,304 | 23,724 | 23,203 | 16,874 |
| Net profit margin | **(12%)** | 9% | 10% | 12% | 10% |
| ASSETS AND LIABILITIES | | | | | |
| Total assets | **181,794** | 213,605 | 187,387 | 164,654 | 127,864 |
| Total liabilities | **34,765** | 82,755 | 70,300 | 64,707 | 47,790 |
| Total equity | **147,029** | 130,850 | 117,087 | 99,947 | 80,074 |