Stock code: 8210

Annual Report

* For identification only

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

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

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

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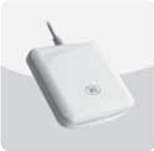
This document, for which the directors of Advanced Card Systems Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving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

As at the date of this document, the Board comprises 3 executive directors, namely Mr. Wong Yiu Chu, Denny, Mr. Tan Keng Boon and Ms. Tsui Kam Ling, Alice; and 3 independent non-executive directors, Dr. Yip Chak Lam, Peter, Mr. Yu Man Woon and Mr. Wong Yick Man, Francis.

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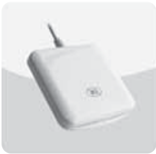
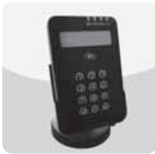


CORPORATE INFORMATION

DIRECTORS

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

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

AUTHORISED REPRESENTATIVES

Mr. Wong Yiu Chu, Denny
Mr. Tan Keng Boon

COMPANY SECRETARY

Ms. Lee Ka Man, *ACS, ACIS*

COMPLIANCE OFFICER

Mr. Wong Yiu Chu, Denny

AUDIT COMMITTEE

Mr. Yu Man Woon *(Chairman)*
Dr. Yip Chak Lam, Peter
Mr. Wong Yick Man, Francis

REMUNERATION COMMITTEE

Dr. Yip Chak Lam, Peter *(Chairman)*
Mr. Wong Yiu Chu, Denny
Mr. Yu Man Woon

NOMINATION COMMITTEE

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

AUDITOR

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

REGISTERED OFFICE

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

HEAD OFFICE & PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL BANKERS

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

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
Rooms 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

COMPANY'S WEBSITE ADDRESS

www.acs.com.hk

STOCK CODE

8210

CHAIRMAN'S STATEMENT

On behalf of Advanced Card Systems Holdings Limited and its subsidiaries (the "Group" or "ACS"), I am pleased to present the Group's annual results for the year ended 31 December 2012.

The Group, building on the momentum of 2011, recorded in 2012 record-high sales revenue of HK$161 million, representing an increase of 37% over the same period last year. The Group also recorded a 44% increase in gross profit and 230% increase in net profit.

HISTORY

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

STRONG FOUNDATION

Since its inception, ACS has devoted strong efforts in the research and development of technology products in its industry. Experience has been accumulated and staff members have been cultivated throughout the years, and a solid foundation for strong, sustainable growth is being built. At present, ACS is more equipped to build increasingly sophisticated technology products and to anticipate, react to and meet changing market demands.

DIRECTION AND OUTLOOK

The Group, with a more solid foundation, has strong intentions to expand its business. The Group's business partners and customers may expect to see a wider range of and more sophisticated products and solutions which apply the Group's core technologies and knowhow, as well as penetration into new and bigger markets. The Group's staff members may expect to see a better environment to learn and to develop their career paths, as well as opportunities for personal growth. The outlook is positive and I expect to see accelerated growth in the coming years.

GRATITUDE

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

WONG Yiu Chu, Denny
Chairman

Hong Kong, 19 March 2013

FINANCIAL REVIEW

The Group's sales revenue for the year ended 31 December 2012 increased by 37% compared to the previous year. The sales revenue is grouped into four regions as shown below:

	2012	2011	Change
	HK$'000	*HK$'000*	
Europe	**57,801**	43,756	+32%
The Americas	**47,212**	13,727	+244%
Asia Pacific	**43,480**	47,896	–9%
Middle East and Africa	**12,362**	12,109	+2%
	160,855	117,488	+37%

The Group's 2012 sales revenues increased in all regions except Asia Pacific. The perceived decrease was due to the corresponding large figure of 2011, when sizable orders were delivered to Japan and Taiwan. In fact, the Group's 2012 sales revenue in Asia Pacific was historically the second highest ever achieved in the region, behind only to 2011's figure.

The Group experienced growths in the other three regions, especially the Americas where the large increase was attributed to the strong sales of Automatic Fare Collection ("AFC") solutions and terminals.

The Group's 2012 gross profit increased by 44% compared to the previous year (2012: HK$86,846k; 2011: HK$60,445k). The Group's 2012 gross profit margin increased to 54% (2011: 51%). The increased gross profit was mainly attributed to the sales of more sophisticated smart card terminals which generally have higher gross profit margins.

The Group's 2012 total expenses increased by 23% compared to the previous year (2012: HK$65,672k; 2011: HK$53,412k). This increase can be attributed to the increased headcount (31 December 2012 headcount: 271; 31 December 2011 headcount: 248) as well as increased selling and distribution costs and administrative expenses owing to increased activities in sales and marketing as well as services to customers.

The Group's 2012 profit for the year increased by 230% compared to the previous year (2012: HK$16,874k; 2011: HK$5,119k). The increase can be attributed to sizable increases in sales revenue and gross profit and controlled total expenses, made possible by our product portfolio of more sophisticated products with a higher gross profit margin, as well as a more productive staff force assisted by an improved internal IT, communication and automation system. Additionally, previous trainings and accumulated experience have also added to the staff members' increased productivity.

DIVIDEND

The board of directors (the "Board") has recommended the payment of a final dividend of HK1.5 cents (2011: Nil) per share, totalling of HK$4.3 million, for the year ended 31 December 2012. Subject to approval by the shareholders at the forthcoming annual general meeting on 21 May 2013, the final dividend will be paid on 4 June 2013 to shareholders whose names appear on the register of members of the Company on 28 May 2013.

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

BUSINESS REVIEW

The Group is starting to enjoy the benefits of previously invested time and resources, seeing obvious improvements in two areas: more productive staff force and expanded technology expertise.

The Group's staff force is becoming more productive for a number of reasons:

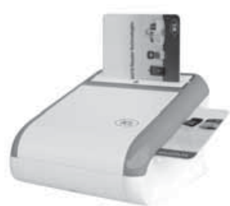
The internally developed software system serves as an online collaboration platform that aids staff members with their daily tasks, such as task delegation, project management, knowledge sharing as well as customer relationship management. The dedicated development team has continued to streamline existing features of the software, as well as constantly providing new, useful features.

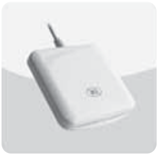
Staff members attend internal training sessions that are held throughout the year, as well as various outside training courses on a wide range of topics.

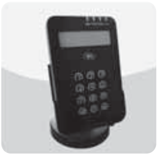
On top of and partly due to the Group's higher productivity, the Group has been able to provide more sophisticated products. The following are some products officially launched in 2012:

ACR100I SIMFlash II PC-Linked Reader with Mass Storage: Combining smart card reader, memory storage and contactless card capabilities in a single device, ACR100 SIMFlash II supports a wide array of applications, from e-Government, e-Banking and e-Payment, to GSM Management, VoIP, Loyalty Programs and Network Security.

ACR33U-A1 SmartDuo: Featuring an ingenious design for two full-sized smart cards and three SAM (Security Access Module) cards, the SmartDuo provides a quick, secure and cost effective way to implement various smart card applications.



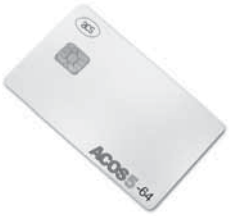




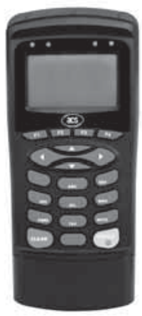
MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(continued)*

ACOS5-64 and CryptoMate64: Combining smart card and cryptographic functions, the ACOS5-64 and CryptoMate64 support advanced security features such as Smart Card Public Key Infrastructure ("PKI") and Digital Signature.

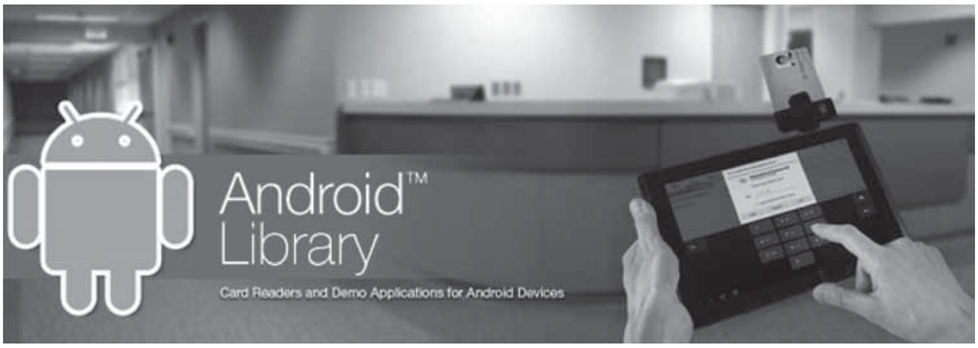


ACR89 Handheld Smart Card Reader: Featuring an LCD display, PIN-pad, dual smart card slots, 3 SAM card slots, as well as optional thermal printer and contactless card support, the ACR89 Handheld Smart Card Reader serves a wide range of on-the-field applications.



Android™ OS support: Supported by our new Android library, ACS smart card readers can now work with Android devices with Android OS 3.1 (Honeycomb) or higher versions. These readers include the ACR38, ACR122U, ACR122T, ACR83, and APG8201 series of ACS products.

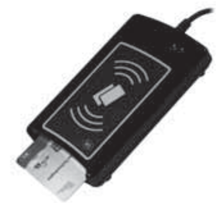
Android™ is a trademark of Google Inc.



ACR123 Contactless Payment Terminal: Compatible with major contactless payment programs through its EMV certification (EMV Levels 1 and 2), the ACR123 also supports different contactless cards technologies including ISO 14443, Mifare, MasterCard PayPass, and Visa PayWave.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(continued)*



ACR1281S-C1 DualBoost II Serial Interface Reader: With a Serial RS-232 interface, this version of the ACR1281 DualBoost II dual interface reader series has been introduced to accommodate more devices, such as POS terminals, vending machines, and so forth, which have different serial ports. The device is used with a PC primarily for payment applications.

ACR1222U-J4 Web-To Reader: Emerged as one of the finalists out of 475 aspirants in the 2012 SESAMES Awards, which is part of the Cartes Exhibition and Conference in Paris, France, the ACR1222U-J4 Web-To Reader enables easy and instant mobile marketing by sending customized URLs of promotional materials, e.g. product leaflets and discount coupons, to phones embedded with Mobile FeliCa, a form of contactless technology widely adopted in Japan.

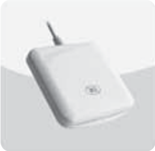
STRATEGIES

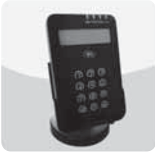
The vision statement of ACS is: ***"Combine scientific spirit and Confucius thoughts to build a sustainable electronic and information technology business to achieve the dual purposes of business growth and environmental protection."***

ACS has its headquarters in Hong Kong which is a city much exposed to the influence of the western and the eastern cultures. ACS is trying to combine the best of both cultures. Scientific spirit guides us to do things and Confucius thoughts help us deal with people. The management of ACS believes that the present smart card product business ACS is pursuing helps the environment rather than damages it. The smart cards and readers enhance the security of using the Internet by identifying and authenticating persons, and hence promote activities using the internet, and reduce the use of papers and the needs of face to face meetings.

The automatic fare collection solution business for public transport increases the percentage of people using public transport to satisfy their mobility needs. Public transportation consumes less energy compared with the private car to carry a passenger to travel a mile.

The protection of environment is becoming more important every day and a business can hardly be sustainable and long-termed if it damages the environment. Before getting into a new business line, ACS pays utmost emphasis on its sustainability. ACS constantly builds new technologies, introduces new products and expands its geographical coverage while ensuring that any new business will make use of our core competence.





PROSPECTS

For the past years, smart card operating systems and PC-linked smart card readers provided the Group a basis for penetration and growth in new and bigger markets. With almost 20 years of technical experience accumulated through meticulous research and development work in the technology sectors, the Group has been able to offer more sophisticated products and solutions. We are more protected from the competition by the higher barriers to entry of these markets, as the depth and breadth of technology required to provide these sophisticated products and solutions are much greater. The market of AFC system solutions is a natural extension and focus for the Group, as we may leverage a wide range of existing technologies and AFC will provide more opportunities for business growth.

We believe that with the strong foundation that we have built throughout the years, continual success in existing markets as well as initial success in new markets, we will experience accelerated and sustainable growth in the coming years.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

At all times the Group maintains a healthy liquidity position. As at 31 December 2012, the Group's bank and cash balances amounted to HK$34.2 million (2011: HK$22.3 million). The Group keeps most of its cash in Hong Kong dollars ("HK$"), Euro dollars ("EURO"), United States dollars ("US$") and Renminbi ("RMB") in bank accounts. The bank borrowings of the Group amounted to HK$14.2 million (2011: HK$8.3 million). The bank borrowings are denominated in HK$, at floating rates and repayable within five years. The gearing ratio, being the total interest bearing debts over the total equity, at 31 December 2012 was 0.18 (2011: 0.13).

The Group's equity capital, bank borrowings, together with the profit generated from operations, has been applied to fund its working capital and other operational needs. The current ratio, being the ratio of current assets to current liabilities, was 1.90 (2011: 1.72). Net asset value as at the year end date was HK$80.1 million (2011: HK$63.0 million).

INVESTMENTS

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

ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31 December 2012.

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

The assets, liabilities and transactions of the Group are primarily denominated in HK$, EURO, US$ and RMB. As HK$ is pegged to US$, the Group does not have significant exposure to risk resulting from changes in foreign currency exchange rates of US$ to HK$. In relation to the fluctuation on RMB against HK$, the Group considers that currency risk arising from RMB does not have significant financial impact to the Group. When appropriate, hedging instruments including forward contracts would be used to manage the foreign exchange exposure on EURO.

PLEDGE OF ASSETS

As at 31 December 2012, the Group did not pledge any of its material assets.

CONTINGENT LIABILITIES

As at 31 December 2012, the Company had outstanding corporate guarantee of HK$44 million (plus accrued interest thereon) to banks in respect of banking facilities granted to its main subsidiary. Save as disclosed herein, the Group did not have any significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2012, the Group had 271 full time employees. Staff costs recognised in profit or loss amounted to HK$38.5 million (2011: HK$33.0 million). Remuneration policies and packages for the Group's employees are based on individual qualifications, performance, experience and conditions prevailing in the industry. In addition, various training sessions are offered to employees to enhance their product and market knowledge.

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

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. WONG Yiu Chu, Denny

Mr. Denny Wong, aged 65, is the chairman and chief executive officer of the Company and the director of several subsidiaries of the Group. He is also the chairman of the nomination committee and a member of the remuneration committee of the Company. Mr. Wong founded Advanced Card Systems Limited ("ACS") in December 1995. In 1985, Mr. Wong founded his previous company, Advanced Electronics Limited, which distributed semiconductor components of Motorola Semiconductors (Hong Kong) Ltd., and provided design and application engineering services to manufacturers of consumer, industrial and telecommunication products. Later in 1997, Mr. Wong disposed of his entire shareholding interest in Advanced Electronics Limited to Future Electronics Holdings Inc., an electronic component distributor based in Canada and was appointed as its general manager for its distribution business in China during the period from July 1997 to April 2000. In June 2000, he became the chief executive officer of ACS. Mr. Wong obtained a bachelor of science degree in physics in 1972 and a masters degree in business administration in 1975 from The Chinese University of Hong Kong. He is the spouse of Ms. Tsui Kam Ling, Alice.

Mr. TAN Keng Boon

Mr. Tan Keng Boon, aged 54, joined the Group in October 1999 as a full-time consultant of ACS and has been a full-time employee and the chief technical officer of ACS since May 2003 and an executive director since 25 October 2003. He is also the director of several subsidiaries of the Group. Mr. Tan is responsible for the implementation of a technical sales and marketing programme for existing and prospective customers of ACS. He has been involved actively in defining the product development road map of ACS and leading the engineering team in the development of new products. Previously, Mr. Tan worked for Gemplus Technologies Asia Pte Ltd. and De La Rue Systems Asia Pte Ltd., both of which were subsidiaries of established companies in the smart card industry. This past working experience of Mr. Tan has allowed him to develop a network of contacts with system solution providers as well as smart card and terminal vendors which are potential customers of the Group. Mr. Tan obtained a bachelor of engineering degree from the National University of Singapore in 1983.

Ms. TSUI Kam Ling, Alice

Ms. Alice Tsui, aged 60, joined the Group in September 1998 as the Vice President, Operations of ACS and is mainly responsible for supervising the sourcing of raw materials, logistics, human resources and finance. She was appointed as an executive director on 23 March 2005. She is also the director of several subsidiaries of the Group and a member of the nomination committee of the Company. Prior to joining the Group, Ms. Tsui was a director of Advanced Electronics Limited, a distributor of semiconductor components until 1997 when it was acquired by Future Electronics Holdings Inc. She then worked as the Administration Manager of Future Advanced Electronics (Hong Kong) Limited until September 1998. Ms. Tsui had a teaching career from 1975 to 1983. Ms. Tsui graduated from The Chinese University of Hong Kong with a bachelor of arts degree in 1975. She is the spouse of Mr. Wong Yiu Chu, Denny.

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. YIP Chak Lam, Peter

Dr. Peter Yip, aged 62, was appointed as an independent non-executive director on 25 October 2003. He is also the chairman of the remuneration committee and a member of the audit committee and nomination committee of the Company. He was awarded a bachelor of science degree, a masters of philosophy degree and a doctor of philosophy degree, all in electronic engineering. He has pursued a career in university teaching in Singapore and Hong Kong, and in telecommunications between 1980 and 2009. Dr. Yip is a Chartered Engineer and a fellow of the Institution of Engineering and Technology (FIET) of the United Kingdom. He has had one book and over 40 technical papers published.

Mr. YU Man Woon

Mr. Yu Man Woon, aged 62, was appointed as an independent non-executive director on 30 September 2004. He is also the chairman of the audit committee and a member of the nomination committee and remuneration committee of the Company. He is currently the assistant general manager of a local bank. Mr. Yu obtained a masters degree in business administration from the University of Minnesota and has over 30 years of experience in banking and finance with various international financial institutions.

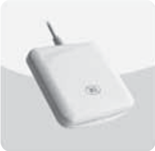
Mr. WONG Yick Man, Francis

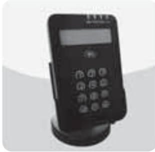
Mr. Francis Wong, aged 59, was appointed as an independent non-executive director on 1 June 2006. He is also a member of the audit committee and nomination committee of the Company. Mr. Wong is a professional accountant and business consultant. He was the chief executive officer of a Hong Kong listed company and founder of several telecom businesses in Hong Kong and in the US. He is currently engaged in direct investments and technology research. Mr. Wong is a graduate of The University of Hong Kong and a member of the Hong Kong Institute of Certified Public Accountants.

SENIOR MANAGEMENT

Mr. CHU Chi Lok, Patrick

Mr. Patrick Chu, aged 41, joined the Group in May 1997 and has served the Group as Manager, Total Quality Management since July 2010, responsible for leading the Group for overall quality improvements. From May 1997 to December 2005, Mr. Chu held various engineering positions with the Group. From January 2006 until December 2011, Mr. Chu worked as Engineering Manager, responsible for leading the engineering team in the development of new products and customisation of existing products according to the requirements from the customers, in several smart card reader product lines. During July 2010 to December 2011, Mr. Chu worked as both Engineering Manager and Manager, Total Quality Management. Mr. Chu obtained a bachelor degree in Electrical and Electronic Engineering from The University of Hong Kong in 1993 and a master of science degree in Electronic Commerce (Business) from The Chinese University of Hong Kong in 2003.





SENIOR MANAGEMENT *(continued)*

Ms. LAI Yuen Yee, Elsie

Ms. Elsie Lai, aged 48, is the Vice President of Product Marketing Department, leading a team to focus on product management and marketing functions of ACS. She worked for Orient Overseas Container Line Ltd. for nine years. She joined the Group in 2000 bringing with her solid experience in sales and marketing activities of the container transport services. She obtained a bachelor of business administration degree from the University of East Asia, Macau.

Mr. LEE Kam Wing, Eric

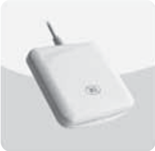
Mr. Eric Lee, aged 49, joined the Group as full-time employee assuming the role of Project Manager since March 2003 and Engineering Manager since 2006. Mr. Lee is responsible for the development of the 32-bit product platform, leading a team of engineers in Hong Kong and Shenzhen. Previously, Mr. Lee worked for Hypercom Asia Limited as Terminal Products Director and Philips Consumer Communications Limited as Software Chief Engineer. Such experience gives Mr. Lee the knowledge of transaction systems as well as various production related activities. Mr. Lee obtained a higher diploma in Applied Science and professional diploma in Information Technology in Hong Kong Polytechnic in 1985 and 1990.

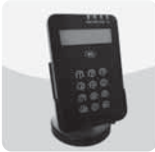
Mr. LEUNG Tin Chak, Gilbert

Mr. Gilbert Leung, aged 37, joined the Group in January 2002 as a Technical Marketing Engineer and was mainly responsible for handling activities of respective product lines. He became the Vice President of Sales and Marketing in January 2012. Mr. Leung is now responsible for sales and marketing duties for existing and prospective customers of ACS. He has been involved actively in promoting the products of ACS, innovating smart card technologies in the market, identifying and exploring new market opportunities. Mr. Leung holds the bachelor and master of philosophy degree in Industrial Engineering and Engineering Management from The Hong Kong University of Science and Technology.

Ms. WONG Mei Ki, Maggie

Ms. Maggie Wong, aged 38, is the Senior Finance Manager of the Group. Prior to joining the Group in June 2003, she has worked for an international accounting firm in Hong Kong. Ms. Wong obtained her bachelor degree in business administration from The Chinese University of Hong Kong. She is a fellow member of the Association of Chartered Certified Accountants and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants.



CORPORATE GOVERNANCE REPORT

During the year, the Company has applied the principles of the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) (the "Code") as set out in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM Listing Rules") of The Stock Exchange of Hong Kong Limited. The Company has complied with the code provisions of the Code except for the provision A.2 of the Code, which provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Details of the exception and the reasons for such exception are disclosed under the paragraph headed "Chairman and chief executive officer" on page 15 of this Annual Report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the rules governing dealings by directors in listed securities of the Company ("dealings rules") on terms no less exacting than the required standard of dealings as referred to in Rules 5.48 to 5.67 of the GEM Listing Rules as the codes of conduct regarding securities transactions by directors and by relevant employees as defined in the Code. Having made specific enquiry of all directors of the Company, all directors of the Company confirm that they complied with such dealings rules throughout the year ended 31 December 2012.

BOARD OF DIRECTORS

The Board comprises 3 executive directors, namely Mr. Wong Yiu Chu, Denny (being the chairman of the Board), Mr. Tan Keng Boon and Ms. Tsui Kam Ling, Alice; and 3 independent non-executive directors, Dr. Yip Chak Lam, Peter, Mr. Yu Man Woon and Mr. Wong Yick Man, Francis. Details of each director are disclosed on pages 10 to 11 of this Annual Report.

The Board is responsible for establishing the strategic direction of the Group; setting objectives and business development plans; monitoring the performance of the senior management; and assuming responsibility for corporate governance. The management is responsible for implementing the strategies and plans established by the Board; and submitting reports on the Company's operations to the Board on a regular basis to ensure effective discharge of the Board's responsibilities.

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

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

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

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

BOARD OF DIRECTORS *(continued)*

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

The Board held four meetings during the year ended 31 December 2012. Due notice and board papers were given to all directors prior to the meeting in accordance with the GEM Listing Rules and the Code. Details of individual attendance of directors are set out below:

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

During the year ended 31 December 2012, the Board at all times exceeded the minimum requirements of the GEM Listing Rules relating to the appointment of at least three independent non-executive directors, and complied with the requirement that these should include one such director with appropriate professional qualifications or accounting or related financial management expertise.

The Company has received an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules from each of the independent non-executive director. The Company considers that all of its independent non-executive directors are independent.

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

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

BOARD OF DIRECTORS *(continued)*

All directors have complied with the code provision A.6.5 of the Code during the period from 1 April 2012 to 31 December 2012 through participating in continuous professional development in the following manner:

Name of director	Reading materials/ attending seminars in relation to corporate governance and regulatory requirements	Attending seminars/ courses/conferences to develop professional skills and knowledge	Site visit
Executive directors			
Mr. Wong Yiu Chu, Denny	✓	✓	✓
Mr. Tan Keng Boon	✓	✓	–
Ms. Tsui Kam Ling, Alice	✓	–	✓
Independent non-executive directors			
Dr. Yip Chak Lam, Peter	✓	✓	–
Mr. Yu Man Woon	✓	✓	–
Mr. Wong Yick Man, Francis	✓	✓	–

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

NON-EXECUTIVE DIRECTORS

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

BOARD COMMITTEES

(i) Audit Committee

The Company has established an audit committee with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The audit committee is primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal; to review the Company's financial controls, internal controls and risk management systems; and to review the financial statements of the Company. Other duties of the audit committee are set out in its terms of reference, which are posted on the websites of the Stock Exchange and the Company.

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

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

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

Set out below is the summary of work performed by the audit committee during the year ended 31 December 2012:

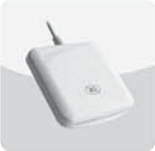
(1) to approve the remuneration and terms of engagement of the external auditor;

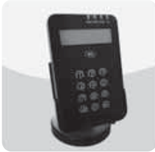
(2) to monitor integrity of the Company's financial statements and annual report and accounts, interim report, and quarterly reports, and to review significant financial reporting judgments contained in them;

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

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

The audit committee met with the external auditor to review the Group's audited results for the year ended 31 December 2012.





BOARD COMMITTEES *(continued)*

(ii) Remuneration Committee

The remuneration committee makes recommendations to the Board on the Company's policy and structure for all directors and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy. The remuneration of directors is determined according to their expertise, knowledge and contributions to the Group with reference to the Group's profitability and the prevailing market conditions. Details of the remuneration payable to the directors during the year are set out in note 15(a) to the financial statements. The remuneration payable to five members of the senior management during the year falls within the following bands:

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

The remuneration committee comprises 3 members, namely Dr. Yip Chak Lam, Peter (being the chairman of the remuneration committee), Mr. Wong Yiu Chu, Denny and Mr. Yu Man Woon.

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

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

(iii) Nomination Committee

The nomination committee was set up on 30 March 2012. The nomination committee reviews the structure, size and composition of the Board and makes recommendations on any proposed changes to the Board to complement the Company's corporate strategy; identifies individuals suitably qualified to become board members and selects or makes recommendations to the Board on the selection of individuals nominated for directorships; assesses the independence of independent non-executive directors; and makes recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors.

The nomination committee comprises 5 members, namely Mr. Wong Yiu Chu, Denny (being the chairman of the nomination committee), Ms. Tsui Kam Ling, Alice, Mr, Yip Chak Lam, Peter, Mr. Yu Man Woon and Mr. Wong Yick Man, Francis.

There has not been any new appointment or resignation of director during the year, the nomination committee held its first meeting with the presence of all members of the nomination committee on 19 March 2013 to review the structure, size and composition of the Board, assess the independence of independent non-executive directors and review the re-election of the retiring directors at the annual general meeting.

BOARD COMMITTEES *(continued)*

(iv) Corporate Governance Function

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

During the year ended 31 December 2012, the Board has reviewed the Company's policies and practices on corporate governance to make sure that the Company has complied with the code provisions of the Code and to explain any deviation from the Code in this Corporate Governance Report. The Board has also reviewed and monitored the training and continuous professional development of directors and senior management.

AUDITORS' REMUNERATION

For the year ended 31 December 2012, the fee payable to the auditors in respect of audit services amounted to HK$408,000 and there is no fee payable to the auditors in respect of non-audit services.

ACCOUNTABILITY AND AUDIT

The directors acknowledged that it is their responsibility for preparing the accounts. A statement by the auditor about their reporting responsibilities is set out on pages 33 to 34 of this Annual Report. There are no material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

INTERNAL CONTROL

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

INTERNAL CONTROL *(continued)*

During the year, the Board, through the audit committee, has assessed the effectiveness of the internal control system of the Group including financial, operational and compliance controls and risk management functions and has considered the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function. The Board is satisfied that, the present system of internal control is effective. The Group does not have an internal audit function and does not see the need to have one.

COMPANY SECRETARY

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

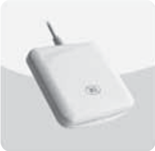
SHAREHOLDERS' RIGHTS

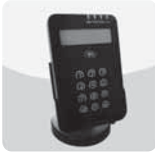
Pursuant to Article 68 of the Articles of Association of the Company, general meetings shall be convened on the written requisition of any two or more members of the Company deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office,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

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

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

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





COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

During the year, the terms of reference of the audit committee, the remuneration committee and the nomination committee were revised in accordance with the amendments of the GEM Listing Rules, and copies of which are available on the websites of the Stock Exchange and the Company. There is no significant change in the Company's constitutional documents during the year.

At the 2012 annual general meeting, a separate resolution was proposed by the chairman in respect of each separate issue, including re-election of directors and voted by way of poll. The Company announced the results of the poll in the manner prescribed under the GEM Listing Rules. The chairman of the Board, audit committee, remuneration committee and nomination committee attended the 2012 annual general meeting to answer questions of shareholders. Details of individual attendance of directors at the general meeting are set out below:

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

REPORT OF THE DIRECTORS

The directors are pleased to submit their annual report together with the audited financial statements for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

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

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

MAJOR CUSTOMERS AND SUPPLIERS

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

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	21%	–
Five largest customers in aggregate	51%	–
The largest supplier	–	12%
Five largest suppliers in aggregate	–	35%

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

RESULTS AND APPROPRIATIONS

The profit of the Group for the year ended 31 December 2012 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 35 to 91.

The directors have recommended the payment of a final dividend of HK1.5 cents (2011: Nil) per share for the year ended 31 December 2012. Subject to approval by the shareholders at the forthcoming annual general meeting on 21 May 2013, the final dividend will be paid on 4 June 2013 to shareholders whose names appear on the register of members of the Company on 28 May 2013.

CLOSURE OF REGISTER OF MEMBERS

(i) Entitlement to Attend and Vote at the 2013 Annual General Meeting

The register of members will be closed from Thursday, 16 May 2013 to Tuesday, 21 May 2013, 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 Wednesday, 15 May 2013.

(ii) Entitlement to the Proposed Final Dividend

The register of members will be closed from Monday, 27 May 2013 to Tuesday, 28 May 2013, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Friday, 24 May 2013.

RESERVES

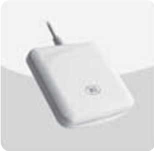
Profit for the year of HK$16,874,000 (2011: HK$5,119,000) has been transferred to reserves. Details of the movements in the reserves of the Group and the Company during the year are set out in note 29 to the financial statements.

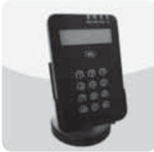
PLANT AND EQUIPMENT

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

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in share capital and share options of the Company during the year are set out in notes 27 and 28 to the financial statements respectively. Shares were issued during the year in respect of the share options being exercised by the employees.





REPORT OF THE DIRECTORS

DIRECTORS

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

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

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

In accordance with Article 112 of the Company's Articles of Association, Mr. Wong Yiu Chu, Denny and Mr. Wong Yick Man, Francis will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

The executive directors, Mr. Wong Yiu Chu, Denny, Mr. Tan Keng Boon and Ms. Tsui Kam Ling, Alice, have entered into service agreements with the Company which were renewed for further two years from 27 October 2010 to 26 October 2012 and then for further two years from 27 October 2012 to 26 October 2014. Under the agreements, either party may terminate the agreement at any time by giving to the other not less than three months' prior written notice.

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

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

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

As at 31 December 2012, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

	Long position in ordinary shares of HK$0.10 each					Percentage of the Company's issued share capital as at 31 December 2012
Name of director	Personal interests (Note 1)	Family interests	Corporate interests	Other interests	Total number of shares held	
Mr. Wong Yiu Chu, Denny (Note 2)	80,768,000	55,138,522	–	–	135,906,522	47.84%
Ms. Tsui Kam Ling, Alice (Note 3)	55,138,522	80,768,000	–	–	135,906,522	47.84%
Mr. Tan Keng Boon	157,893	–	–	–	157,893	0.06%

Notes:

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

2. 80,768,000 shares are held by Mr. Wong Yiu Chu, Denny personally and 55,138,522 shares are held by his wife, Ms. Tsui Kam Ling, Alice personally. Mr. Wong Yiu Chu, Denny is taken to be interested in the shares held by Ms. Tsui Kam Ling, Alice under the SFO.

3. 55,138,522 shares are held by Ms. Tsui Kam Ling, Alice personally and 80,768,000 shares are held by her husband, Mr. Wong Yiu Chu, Denny personally. Ms. Tsui Kam Ling, Alice is taken to be interested in the shares held by Mr. Wong Yiu Chu, Denny under the SFO.

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

Save as disclosed above, to the best knowledge of the directors of the Company, as at 31 December 2012, none of the directors or their associates had any personal, family, corporate or other interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the required standard of dealings by directors as referred to in Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEMES

(i) Pre-IPO Share Option Plan

Pursuant to the resolution of the shareholders of the Company dated 27 October 2003, the Company adopted a Pre-IPO Share Option Plan (the "Plan").

(a) Purpose of the Plan

The purpose of the Plan was to recognise the contribution of certain existing and past employees, directors of the Company and consultants of the Group to the growth of the Group and/or to the listing of the shares on GEM and for the purpose of cancellation of the terminated share option scheme.

(b) Participants of the Plan

All options granted under the Plan were granted to those directors, employees and consultants which held options granted to them under the terminated share option scheme and which were outstanding immediately prior to the cancellation of such scheme as consideration for their agreement to cancel these outstanding options.

(c) Total number of shares available for issue under the Plan

The maximum number of shares in respect of which options may be granted under the Plan was 6,535,631 shares, which represents approximately 2.30% of the issued share capital as at 19 March 2013.

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

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

SHARE OPTION SCHEMES *(continued)*

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

(e) Payment on acceptance of the option offer

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

(f) Basis of determining the exercise price

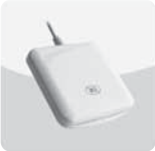
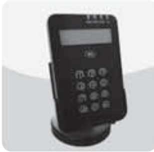
The exercise price per share is HK$0.09 or HK$0.24.

(g) Remaining life of the Plan

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

As at 31 December 2012, the employees of the Group had the following interests in options to subscribe for shares of the Company (market value per share at 31 December 2012 was HK$0.51) with an exercise price of HK$0.24 per share under the Plan of the Company. The options are unlisted. Each option gives the holder the right to subscribe for one ordinary share of HK$0.10 each of the Company.

		Number of share options							Percentage of the Company's issued share capital as at 31 December 2012
Grantees	Date granted	Balance as at 1 January 2012	Granted during the year	Exercised during the year	Lapsed during the year	Balance as at 31 December 2012	Period during which the options are exercisable	Exercise price per share	
Employees	27 October 2003	900,776	–	896,517 (Note 1)	–	4,259 (Note 2)	10 May 2004 to 20 January 2013	HK$0.24	0.001%
		900,776	–	896,517	–	4,259			



SHARE OPTION SCHEMES *(continued)*

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

(g) Remaining life of the Plan *(continued)*

Notes:

1 896,517 share options at an exercise price of HK$0.24 each have been exercised by 4 employees during the year ended 31 December 2012. The weighted average closing price of the shares immediately before the date on which the options were exercised was HK$0.455.

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

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

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

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

3 No option was granted, cancelled or lapsed during the year.

(ii) Share Option Scheme

Pursuant to the resolution of the shareholders of the Company dated 27 October 2003, the Company adopted a Share Option Scheme (the "Scheme"). As at the date of this report, no options had been granted under the Scheme.

(a) Purpose of the Scheme

The purpose of the Scheme is to provide the people and the parties working for the interest of the Group with an opportunity to obtain equity interest in the Company, thus linking their interest with the interest of the Group and thereby providing them with incentives to work better for the interest of the Group.

(b) Participants of the Scheme

Pursuant to the Scheme, the Company may grant options to any directors, employees, suppliers, advisors or consultants engaged by or worked for any member of the Group, who have in accordance with paragraph (a) above, contribute to the Group.

SHARE OPTION SCHEMES *(continued)*

(ii) Share Option Scheme *(continued)*

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

(1) At the time of adoption of the Scheme, the Company may seek approval of its shareholders in a general meeting to authorise the directors of the Company to grant options under the Scheme and any other share option schemes of the Company in issue entitling the Grantees to exercise up to an aggregate of 10% (the "Scheme Mandate Limit") of the total number of shares in issue immediately following completion of the Placing (excluding (i) any shares issued pursuant to the Scheme and any other share option schemes of the Company; and (ii) any pro rata entitlements to further shares issued in respect of those shares mentioned in (i)) unless the Company obtains a fresh approval from its shareholders pursuant to sub-paragraph (2) below (i.e. total 28,000,000 shares, which represents approximately 9.86% of the issued share capital as at 19 March 2013). Options lapsed in accordance with the terms of the Scheme shall not be counted for the purpose of calculating the Scheme Mandate Limit.

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

(3) The Company may seek separate approval by its shareholders in general meeting for granting options beyond the Scheme Mandate Limit or, if applicable, the Refreshed Limit provided the options in excess of such limit are granted only to Participants specifically identified by the Company before such approval is sought.

Notwithstanding the above, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company shall not exceed 30% of the total number of shares in issue from time to time. No options may be granted under any schemes of the Company if this will result in the aforesaid 30% limit being exceeded.

SHARE OPTION SCHEMES *(continued)*

(ii) Share Option Scheme *(continued)*

(d) Maximum entitlement of each Participant

The maximum number of shares issued and to be issued upon exercise of the options granted and to be granted pursuant to the Scheme and any other share option schemes of the Company to each Participant (including both exercised and outstanding options) in any 12-month period up to and including the date of grant of the options shall not exceed 1% of the total number of shares in issue. Any further grant of options which will result in such limit being exceeded shall be subject to the separate approval of the shareholders of the Company in general meeting, at which such Participant and his associates shall abstain from voting.

(e) Time of exercise of option

An option may be exercised in accordance with the terms of the Scheme at any time during a period of not more than 10 years to be notified by the Board to each Grantee, which period shall commence on the date on which an offer of the grant of an option is accepted or deemed to be accepted in accordance with the terms of the Scheme and expire on the last day of such period as determined by the Board.

(f) Payment on acceptance of the option offer

HK$1.00 is payable by the Participant to the Company on acceptance of the option offer as consideration for the grant from the Offer Date to a date being the fourteenth day after the Offer Date (or such other date as may be specified in the Offer Letter), both days inclusive.

(g) Basis of determining the exercise price

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

(h) Remaining life of the Scheme

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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

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

In addition to the interests disclosed under the section "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, the Company has been notified of the following interests in the Company's issued shares as at 31 December 2012 as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

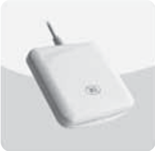
	Capacity	Total number of ordinary shares held	Percentage of the Company's issued share capital as at 31 December 2012
Mr. Tjio Kay Loen (Note 2)	Beneficial owner and Other	22,960,000 shares (L)	8.08%
Warren Securities Limited	Beneficial owner	14,720,000 shares (L)	5.18%

Notes:

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

2 Of these shares, 7,400,000 shares are held by Mr. Tjio Kay Loen personally, 14,720,000 shares and 840,000 shares are held by Warren Securities Limited (a company which is owned as to 30% by Mr. Tjio Kay Loen) and Farina Limited (a company which is owned as to 60% by Mr. Tjio Kay Loen) respectively. Mr. Tjio Kay Loen is taken to be interested in these shares under the SFO.

Save as disclosed above, as at 31 December 2012 and to the best knowledge of the directors, there was no person (other than the directors and chief executive of the Company whose interests are set out in the paragraph "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above) had an interest or short position in the shares or underlying shares of the Company as recorded in the register to be kept under Section 336 of the SFO.



DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

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

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

PRE-EMPTIVE RIGHTS

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

BANK LOANS AND OTHER BORROWINGS

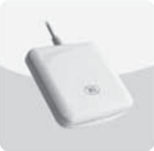
The Company and its subsidiaries obtained banking facilities during the year. The bank borrowings as at the year end amounted to HK$14.2 million and the details are set out in note 24 to the financial statements. Save as disclosed herein, there is no other outstanding balance of bank loans and other borrowings as at the year end.

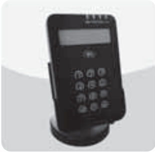
FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group is set out on page 92 of this Annual Report.

REMUNERATION POLICIES

Remuneration policies and packages for the Group's employees are based on individual qualifications, performance, experience and conditions prevailing in the industry. In addition, various training sessions are offered to employees to enhance their product and market knowledge. The remuneration of directors is determined according to their expertise, knowledge and contributions to the Group with reference to the Group's profitability and the prevailing market conditions. The Group has also adopted share option schemes under which the directors and employees of the Group may be granted share options to subscribe for shares in the Company for the purposes of recognising their contributions to the Group.





REPORT OF THE DIRECTORS

PUBLIC FLOAT

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

AUDITOR

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

The consolidated financial statements for the year ended 31 December 2012 have been audited by BDO. At the forthcoming annual general meeting of the Company, BDO retire and, being eligible, offer themselves for re-appointment. A resolution will be proposed to re-appoint BDO as auditor of the Company.

By order of the Board

WONG Yiu Chu, Denny
Chairman

Hong Kong, 19 March 2013

INDEPENDENT AUDITOR'S REPORT

BDO

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

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

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

香港干諾道中111號
永安中心25樓

TO THE SHAREHOLDERS OF ADVANCED CARD SYSTEMS HOLDINGS LIMITED
(incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Advanced Card Systems Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 35 to 91, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

BDO Limited
香港立信德豪會計師事務所有限公司

BDO

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

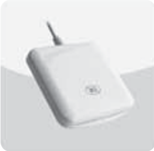
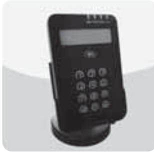
BDO Limited
Certified Public Accountants
Yu Tsui Fong
Practising Certificate No. P05440

Hong Kong, 19 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	2012 *HK$'000*	2011 *HK$'000*
Revenue	6	**160,855**	117,488
Cost of sales and services provided		**(74,009)**	(57,043)
Gross profit		**86,846**	60,445
Other income and gains	7	**269**	181
Selling and distribution costs		**(13,325)**	(10,710)
Research and development expenses		**(22,240)**	(18,808)
Administrative expenses		**(29,755)**	(23,545)
Finance costs	8	**(352)**	(349)
Profit before income tax	9	**21,443**	7,214
Income tax expense	10	**(4,569)**	(2,095)
Profit for the year, attributable to owners of the Company		**16,874**	5,119
Other comprehensive income			
Exchange gain on translation of financial statements of foreign operations		**251**	406
Remeasurement of defined benefit obligations		**(232)**	–
Other comprehensive income for the year		**19**	406
Total comprehensive income for the year, attributable to owners of the Company		**16,893**	5,525
Earnings per share for profit attributable to owners of the Company for the year	13		
– Basic (HK cents)		**5.954**	1.808
– Diluted (HK cents)		**5.948**	1.806

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 *HK$'000*	2011 *HK$'000*
ASSETS AND LIABILITIES			
Non-current assets			
Plant and equipment	16	**9,578**	9,719
Development costs	18	**29,311**	22,141
		38,889	31,860
Current assets			
Inventories	19	**34,766**	36,845
Trade and other receivables, prepayments and deposits paid	20	**19,948**	17,010
Held-to-maturity financial assets	21	**38**	36
Cash and cash equivalents	22	**34,223**	22,267
		88,975	76,158
Current liabilities			
Trade payables, accruals and deposits received	23	**29,075**	35,158
Bank borrowings, secured	24	**14,218**	8,285
Current tax liabilities		**3,465**	710
		46,758	44,153
Net current assets		**42,217**	32,005
Total assets less current liabilities		**81,106**	63,865
Non-current liabilities			
Deferred tax liabilities	25	**729**	900
Defined benefit obligations	26	**303**	–
		1,032	900
Net assets		**80,074**	62,965
EQUITY ATTRIBUTABLE TO COMPANY'S OWNERS			
Share capital	27	**28,406**	28,316
Reserves	29	**51,668**	34,649
Total equity		**80,074**	62,965

On behalf of the Board

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

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 *HK$'000*	2011 *HK$'000*
ASSETS AND LIABILITIES			
Non-current assets			
Investments in subsidiaries	17	**14,004**	14,004
Current assets			
Amount due from a subsidiary	17	**38,967**	21,931
Prepayments	20	**165**	65
Cash and cash equivalents	22	**359**	326
		39,491	22,322
Current liabilities			
Accruals	23	**257**	276
Net current assets		**39,234**	22,046
Net assets/Total assets less current liabilities		**53,238**	36,050
EQUITY			
Share capital	27	**28,406**	28,316
Reserves	29	**24,832**	7,734
Total equity		**53,238**	36,050

On behalf of the Board

WONG Yiu Chu, Denny
Chairman

TSUI Kam Ling, Alice
Director

CONSOLIDATED STATEMENT OF CASH FLOWS

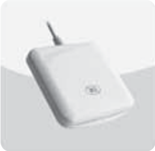
For the year ended 31 December 2012

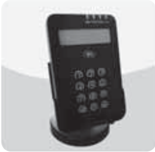
	Notes	2012 *HK$'000*	2011 *HK$'000*
Cash flows from operating activities			
Profit before income tax		**21,443**	7,214
Adjustments for:			
Amortisation of development costs	9	**3,967**	2,271
Depreciation of plant and equipment	9	**4,551**	3,469
Finance costs	8	**352**	349
Impairment losses on trade receivables	9	**239**	–
Interest income	7	**(68)**	(15)
Net loss on disposals of plant and equipment	9	**1**	8
Write-down of inventories	9	**731**	425
Operating profit before working capital changes		**31,216**	13,721
Decrease/(Increase) in inventories		**1,386**	(10,499)
(Increase)/Decrease in trade and other receivables, prepayments and deposits paid		**(3,064)**	483
(Decrease)/Increase in trade payables, accruals and deposits received		**(6,088)**	21,388
Increase in defined benefit obligations		**71**	–
Cash generated from operations		**23,521**	25,093
Income tax paid		**(1,985)**	(733)
Net cash generated from operating activities		**21,536**	24,360
Cash flows from investing activities			
Purchases of plant and equipment		**(4,374)**	(6,149)
Purchases of held-to-maturity financial assets		**(2)**	–
Proceeds from disposals of plant and equipment		**–**	5
Expenditure on development projects capitalised	18	**(11,137)**	(9,246)
Interest received		**23**	15
Net cash used in investing activities		**(15,490)**	(15,375)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Notes	2012 *HK$'000*	2011 *HK$'000*
Cash flows from financing activities			
Proceeds from shares issued upon exercise of share options		216	–
Decrease in trust receipt loans		–	(4,551)
Proceeds from new borrowings		10,000	5,000
Repayments of borrowings		(4,067)	(2,215)
Finance costs paid		(352)	(349)
Net cash generated from/(used in) financing activities		5,797	(2,115)
Net increase in cash and cash equivalents		11,843	6,870
Cash and cash equivalents at 1 January		22,267	15,323
Effect of foreign exchange rate changes, on cash held		113	74
Cash and cash equivalents at 31 December	22	34,223	22,267



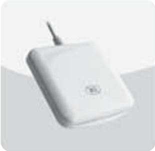


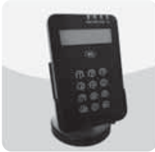
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to owners of the Company						
	Share capital *HK$'000* (note 27)	Share premium* *HK$'000* (note 29)	Merger reserve* *HK$'000* (note 29)	Translation reserve* *HK$'000*	Retained profits* *HK$'000*	Proposed dividend* *HK$'000*	Total *HK$'000*
Balance as at 1 January 2011	28,316	17,829	4,496	229	6,570	–	57,440
Profit for the year	–	–	–	–	5,119	–	5,119
Other comprehensive income							
– Exchange gain on translation of financial statements of foreign operations	–	–	–	406	–	–	406
Total comprehensive income for the year	–	–	–	406	5,119	–	5,525
Balance as at 31 December 2011 and 1 January 2012	28,316	17,829	4,496	635	11,689	–	62,965
Issue of shares upon exercise of share options	90	126	–	–	–	–	216
Transactions with owners	90	126	–	–	–	–	216
Profit for the year	–	–	–	–	16,874	–	16,874
Other comprehensive income							
– Exchange gain on translation of financial statements of foreign operations	–	–	–	251	–	–	251
– Remeasurement of defined benefit obligations	–	–	–	–	(232)	–	(232)
	–	–	–	251	(232)	–	19
Total comprehensive income for the year	–	–	–	251	16,642	–	16,893
2012 final dividend proposed (note 12)	–	–	–	–	(4,261)	4,261	–
Balance as at 31 December 2012	**28,406**	**17,955**	**4,496**	**886**	**24,070**	**4,261**	**80,074**

* These reserve accounts comprise the consolidated reserves of HK$51,668,000 (2011: HK$34,649,000) in the consolidated statement of financial position as at 31 December 2012.





NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

1. GENERAL INFORMATION

Advanced Card Systems Holdings Limited (the "Company") was incorporated in Cayman Islands on 13 April 2000 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. Its registered office is located at Ugland House, P.O. Box 309, George Town, Grand Cayman, Cayman Islands, British West Indies and its principal place of business is located at Units 2010-2013, 20th Floor, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Hong Kong. The Company's shares are listed on The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activity of the Company is investment holding. Details of the principal activities and other particulars of the subsidiaries are set out in note 17 to the financial statements. The Company and its subsidiaries are referred to as the "Group" hereinafter. The Group's operations are based in the People's Republic of China (the "PRC"), including Hong Kong. There were no significant changes in the nature of the Group's principal activities during the year.

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

The financial statements for the year ended 31 December 2012 were approved for issue by the board of directors on 19 March 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements on pages 35 to 91 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities on GEM of the Stock Exchange.

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of new or amended HKFRSs and the impact on the Group's financial statements, if any, are disclosed in note 3.

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

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

2.1 Basis of preparation *(continued)*

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

2.2 Basis of consolidation

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

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

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

2.3 Subsidiaries

Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

2.4 Foreign currency translations

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

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

2.4 Foreign currency translations *(continued)*

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into HK$. Assets and liabilities have been translated into HK$ at the closing rate at the reporting date. Income and expenses have been converted into HK$ at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the translation reserve in equity.

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

2.5 Plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance, are charged to profit or loss in the year in which they are incurred.

Depreciation is provided to write off the cost less their estimated residual value, using straight-line method, at the following rates per annum:

Leasehold improvements	Over the remaining term of the leases
Furniture and fixtures	25%
Computer and office equipment	25%
Mould	25%

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

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

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

2.6 Research and development costs

Expenditures associated with research activities are expensed in profit or loss as they occur. Expenditures that are directly attributable to the development activities are recognised as intangible assets provided they meet the following recognition requirements:

(i) demonstration of technical feasibility of the prospective product for internal use or sale;

(ii) there is intention to complete the intangible asset and use or sell it;

(iii) the Group's ability to use or sell the intangible asset is demonstrated;

(iv) the intangible asset will generate probable economic benefits through internal use or sale;

(v) sufficient technical, financial and other resources are available for completion; and

(vi) the expenditure attributable to the intangible asset can be reliably measured.

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

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

2.7 Financial assets

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

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

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

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

2.7 Financial assets *(continued)*

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

At each reporting date, held-to-maturity investments and loans and receivables are reviewed to determine whether there is any objective evidence of impairment. Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

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

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

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

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

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

If, in subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of year in which the reversal occurs.

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

2.7 Financial assets *(continued)*

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

2.8 Inventories

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

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

2.9 Cash and cash equivalents

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

2.10 Financial liabilities

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

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs (see note 2.19).

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

2.10 Financial liabilities *(continued)*

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

Bank borrowings

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

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

Trade payables and accruals

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

2.11 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

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

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2.13 if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount, i.e. the amount initially recognised less accumulated amortisation, where appropriate.

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

2.12 Leases

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

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

2.13 Provisions and contingent liabilities

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

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

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

2.14 Share capital

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

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

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

2.15 Revenue recognition

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

(a) Sale of goods (including smart card products, software and hardware) are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods;

(b) Smart card related service income is recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total service to be provided;

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

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

2.16 Impairment of non-financial assets

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

Recoverable amount of an asset is the higher of fair value, reflecting market conditions less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset. Where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit ("CGU")). As a result, some assets are tested individually for impairment and some are tested at CGU level.

An impairment loss is recognised as an expense immediately for the amount by which the carrying amount of an asset, or the CGU to which it belongs, exceeds its recoverable amount. Impairment losses recognised for CGUs is charged pro-rata to the assets in the CGU, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value-in-use, if determinable.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount of the asset or the CGU and only to the extent that the carrying amount of the asset or the CGU does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

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

2.17 Employee benefits

Short-term employee benefits

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

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

Defined contribution retirement plans

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

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

The Group's subsidiary operating in the Philippines participates in the mandatory Social Security System contribution scheme ("SSS Scheme") as prescribed by the Philippines law. Pursuant to the rules of the SSS Scheme, the Group and the employees in the Philippines are required to make monthly contributions to the scheme, up to Philippine Pesos ("PHP") 1,060 per month for employer and PHP500 for employee. There are no provisions under the SSS Scheme whereby forfeited contributions may be used to reduce future contributions.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The Group's obligation under these plans is limited to the contributions payable.

Defined benefit retirement plan

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

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

2.17 Employee benefits *(continued)*

Defined benefit retirement plan *(continued)*

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

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

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

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

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

2.18 Share-based compensation

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

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

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

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

2.18 Share-based compensation *(continued)*

Share options granted after 7 November 2002 and had vested before 1 January 2005 *(continued)*

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

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

All employee services received in exchange for the grant of these share-based compensations are measured at their fair values. These are indirectly determined by reference to the equity instruments awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

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

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. After vesting date, when the vested share options are later forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

2.19 Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

2.20 Accounting for income tax

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on taxable profit for the year.

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

2.20 Accounting for income tax *(continued)*

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

Deferred tax assets and liabilities are not recognised if the temporary difference arises from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

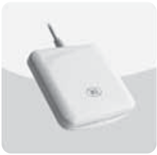
Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

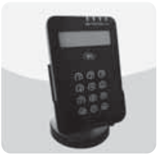
Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Current tax and changes in deferred tax assets or liabilities are recognised as a component of income tax expense in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity, respectively.

Current tax assets and current tax liabilities are presented in net if, and only if, (a) the Group has the legally enforceable right to set off the recognised amounts, and (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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





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

2.21 Segment reporting

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

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

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

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

2.22 Related parties

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

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

   (b) has significant influence over the Group; or

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

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

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

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

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

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

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

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

2.22 Related parties *(continued)*

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

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

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

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

3. ADOPTION OF NEW OR AMENDED HKFRSs

3.1 New or amended HKFRSs effective for annual period beginning on or after 1 January 2012

In the current year, the Group has applied the new standards, amendments and interpretations (the "new HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2012. The adoption of the new HKFRSs that are effective for the year had no material impact on the Group's financial statements.

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

At the date of authorisation of these financial statements, certain new or amended HKFRSs have been issued but are not yet effective. Except for HKAS 19 (2011) Employee Benefits, these new or amended HKFRSs have not been adopted early by the Group for the year ended 31 December 2012. The directors of the Company anticipate that these pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on early adoption of HKAS 19 (2011) and new or amended HKFRSs that have not been adopted early by the Group but expected to have impact on the Group's accounting policies is provided below. Other new or amended HKFRSs have been issued but are not yet effective and not adopted in advance are not expected to have a material impact on the Group's financial statements.

HKAS 19 (2011) – Employee Benefits

During the year, the Group has early adopted HKAS 19 (2011), which is effective for annual periods beginning on or after 1 January 2013, with early adoption permitted.

Since this is the first year in which the Group had funded defined benefit plans for qualifying employee of its subsidiaries, the early adoption of HKAS 19 (2011) had no impact on net assets as at 31 December 2011 or 1 January 2011. The Group's accounting policy for defined benefit plan is set out in note 2.17. Further details of the defined benefit plan were set out in note 26.

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

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

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

The amendments are effective for annual periods beginning on or after 1 July 2012 and require entities to group together the items of other comprehensive income that may be reclassified to profit or loss in the future (e.g. exchange difference on translation of financial statements of foreign operations) by presenting them separately from those that would never be reclassified to profit or loss (e.g. remeasurement of defined benefit obligations). Tax on items of other comprehensive income is allocated and disclosed on the same basis. The amendments also change the title "Statement of comprehensive income" to "Statement of profit or loss and other comprehensive income". However, entities are still allowed to use the old title. The amendments will be applied retrospectively.

HKFRS 9 – Financial Instruments

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities. HKFRS 9 will be effective for annual periods beginning on or after 1 January 2015.

HKFRS 10 – Consolidated Financial Statements

HKFRS 10 is effective for annual periods beginning on or after 1 January 2013 and introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns.

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

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

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

HKFRS 10 – Consolidated Financial Statements (continued)

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

HKFRS 12 – Disclosure of Interests in Other Entities

HKFRS 12 is effective for annual periods beginning on or after 1 January 2013. It integrates and makes consistent the disclosures requirements about interests in subsidiaries, associates and joint arrangements. It also introduces new disclosure requirements, including those related to unconsolidated structured entities. The general objective of the standard is to enable users of financial statements to evaluate the nature and risks of a reporting entity's interests in other entities and the effects of those interests on the reporting entity's financial statements.

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

(i) Research and development activities

Careful judgement by the Group's management is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgements are based on the best information available at each reporting date. In addition, all internal activities related to the research and development of products is continuously monitored by the Group's management.

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

(ii) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and applicable selling expenses. These estimates are based on the current market conditions and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to the changes in market condition. Management reassesses these estimations at the reporting date.

(iii) Impairment of receivables

The Group's management determines impairment of receivables on a regular basis. This estimate is based on the credit history of its customers, past default experience and the current market conditions. Management reassesses the impairment of receivables at the reporting date.

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

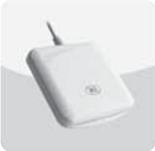
The Group depreciates its plant and equipment and amortises development costs in accordance with the accounting policies stated in notes 2.5 and 2.6. The estimated useful lives reflect the directors' estimates of the period that the Group will derive future economic benefits from the use of these assets.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

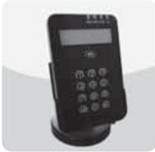
(v) Estimated impairment of development costs

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

(vi) Allocation of revenue for bundled transactions with customers

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





5. SEGMENT INFORMATION

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

	2012	2011
	HK$'000	*HK$'000*
Revenue from external customers and reportable segment revenue	160,855	117,488
Reportable segment profit	22,470	8,207
Unallocated corporate expenses	(1,027)	(993)
Consolidated profit before income tax	21,443	7,214
Reportable segment assets	127,699	107,953
Unallocated corporate assets	165	65
Consolidated assets	127,864	108,018
Reportable segment liabilities	43,339	43,167
Current tax liabilities	3,465	710
Deferred tax liabilities	729	900
Unallocated corporate liabilities	257	276
Consolidated liabilities	47,790	45,053
Other segment information		
Interest income	(68)	(15)
Interest expense	352	349
Depreciation and amortisation of non-financial assets	8,518	5,740
Research and development expenses	22,240	18,808
Impairment losses on trade receivables	239	–
Write-down of inventories	731	425
Additions to non-current assets	15,511	15,395

5. SEGMENT INFORMATION *(continued)*

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

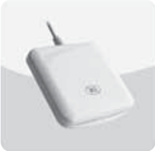
	Revenue from external customers		Non-current assets	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
PRC, including Hong Kong and Macau (domicile)#	**18,096**	17,894	**36,692**	31,430
Foreign countries				
– United States	**40,638**	9,607	**7**	–
– Italy	**23,882**	23,181	**–**	–
– Other countries	**78,239**	66,806	**2,190**	430
	142,759	99,594	**2,197**	430
	160,855	117,488	**38,889**	31,860

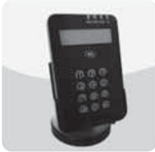
The Company is an investment holding company incorporated in Cayman Islands where the Group does not have any activities. The Group has the majority of its operations in the PRC, including Hong Kong, and therefore, PRC is considered as the Group's country of domicile for the purpose of disclosures as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

The Group's customer base is diversified and includes only the following customers with whom transactions have exceeded 10% of the Group's revenues. During each of the years ended 31 December 2012 and 2011, revenue derived from these customers, including sales to entities which are known to the Group to be under common control, are as follows:

	2012	2011
	HK$'000	*HK$'000*
Customer A	**34,052**	5,358
Customer B*	**23,876**	23,118
Customer C*	**1,306**	1,822

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





NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

6. REVENUE

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

	2012	2011
	HK$'000	*HK$'000*
Sale of smart card products, software and hardware	**157,663**	115,853
Smart card related services	**3,192**	1,635
	160,855	117,488

7. OTHER INCOME AND GAINS

	2012	2011
	HK$'000	*HK$'000*
Interest income on:		
– Held-to-maturity financial assets	**–**	1
– Bank deposits	**68**	14
Interest income on financial assets not at fair value through profit or loss	**68**	15
Sundry income	**201**	166
	269	181

Included above is income from listed investment of Nil (2011: HK$1,000).

8. FINANCE COSTS

	2012	2011
	HK$'000	*HK$'000*
Interest charges on bank borrowings, repayable on demand or wholly within five years	**352**	349

9. PROFIT BEFORE INCOME TAX

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

	2012 *HK$'000*	2011 *HK$'000*
Amortisation of development costs*	**3,967**	2,271
Auditors' remuneration		
– Audit services	**408**	342
– Non-audit services	**–**	20
	408	362
Cost of inventories recognised as expense, including:	**72,596**	55,501
– Write-down of inventories	**731**	425
Depreciation of plant and equipment	**4,551**	3,469
Impairment losses on trade receivables	**239**	–
Minimum lease payments under operating leases for land and buildings	**3,585**	3,049
Less: Amount capitalised into development costs	**(148)**	(124)
Amount recognised in profit or loss	**3,437**	2,925
Net foreign exchange loss	**1,211**	660
Net loss on disposals of plant and equipment	**1**	8

* Included in research and development expenses in profit or loss

10. INCOME TAX EXPENSE

	2012	2011
	HK$'000	*HK$'000*
Current tax		
Hong Kong profits tax		
– Provision for current year	4,740	1,801
– Over-provision in respect of prior years	(8)	–
	4,732	1,801
Philippines Income Tax		
– Provision for current year	141	138
– Over-provision in respect of prior years	(133)	(103)
	8	35
	4,740	1,836
Deferred tax (note 25)	(171)	259
	4,569	2,095

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits for the year.

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

No provision for income tax in other locations including PRC and Canada has been made as no assessable profits arose from the operations in these locations or the related subsidiaries had unused tax losses brought forward to offset against the current year's assessable profits (2011: Nil).

10. INCOME TAX EXPENSE *(continued)*

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

	2012 *HK$'000*	2011 *HK$'000*
Profit before income tax	21,443	7,214
Notional tax at the applicable tax rates	3,793	1,176
Tax effect of non-deductible expenses	229	620
Tax effect of non-taxable revenue	(90)	(68)
Tax effect of unused tax loss not recognised	1,415	488
Tax effect of prior years' unrecognised tax losses utilised this year	(665)	(101)
Tax effect of temporary difference not recognised	101	99
Over-provision in respect of prior years	(141)	(103)
Other differences	(73)	(16)
Income tax expense	4,569	2,095

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Of the consolidated profit attributable to the owners of the Company of HK$16,874,000 (2011: HK$5,119,000), a profit of HK$16,972,000 (2011: loss of HK$993,000) has been dealt with in the financial statements of the Company.

12. DIVIDENDS

Dividends attributable to the year:

	2012 *HK$'000*	2011 *HK$'000*
Proposed final dividend of HK1.5 cents (2011: Nil) per ordinary share	4,261	–

The final dividend proposed after the reporting date has not been recognised as a liability at the reporting date, but reflected as an appropriation of retained profits for the year ended 31 December 2012.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on profit attributable to owners of the Company of HK$16,874,000 (2011: HK$5,119,000) and weighted average of 283,411,000 (2011: 283,161,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on profit attributable to owners of the Company of HK$16,874,000 (2011: HK$5,119,000) and the weighted average of 283,680,000 (2011: 283,427,000) ordinary shares outstanding during the year, after adjusting for the effects of all dilutive potential ordinary shares.

The weighted average number of ordinary shares used in the calculation of diluted earnings per share is calculated based on the weighted average of 283,411,000 (2011: 283,161,000) ordinary shares in issue during the year as used in the calculation of basic earnings per share plus the weighted average of 269,000 (2011: 266,000) ordinary shares deemed to be issued at no consideration as if all the Company's outstanding share options had been exercised.

14. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	2012	2011
	HK$'000	*HK$'000*
Wages and salaries	**46,032**	39,111
Contribution to defined contribution retirement plans	**1,942**	1,594
Expenses recognised in respect of defined benefit retirement plan (note 26)	**298**	–
Total employee benefit expense	**48,272**	40,705
Less: Amount capitalised into development costs	**(9,733)**	(7,704)
Amount recognised in profit or loss	**38,539**	33,001

15. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

No emoluments were paid by the Group to any of the following directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office or are there any arrangement under which a director waived or agree to waive any remuneration during the year (2011: Nil).

(a) Directors' emoluments

	Directors' fee	Salaries, allowances and other benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2012					
Executive directors					
– Mr. Wong Yiu Chu, Denny	–	1,639	70	11	1,720
– Mr. Tan Keng Boon	–	949	100	14	1,063
– Ms. Tsui Kam Ling, Alice	–	870	100	14	984
Independent non-executive directors					
– Dr. Yip Chak Kam, Peter	120	–	–	–	120
– Mr. Yu Man Woon	120	–	–	–	120
– Mr. Wong Yick Man, Francis	120	–	–	–	120
	360	3,458	270	39	4,127

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

(a) Directors' emoluments *(continued)*

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included three (2011: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2011: two) individuals during the year are as follows:

	2012 *HK$'000*	2011 *HK$'000*
Salaries and other emoluments	1,200	1,202
Discretionary bonuses	425	106
Retirement scheme contributions	28	24
	1,653	1,332

The emoluments of these remaining two (2011: two) highest paid individuals fell within the following bands:

	2012	2011
Nil to HK$1,000,000	1	2
HK$1,000,001 to HK$1,500,000	1	–
	2	2

16. PLANT AND EQUIPMENT – GROUP

	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Computer and office equipment HK$'000	Mould HK$'000	Total HK$'000
At 1 January 2011					
Cost	1,739	1,072	8,828	5,475	17,114
Accumulated depreciation	(1,356)	(698)	(5,103)	(3,039)	(10,196)
Net carrying amount	383	374	3,725	2,436	6,918
Year ended 31 December 2011					
Opening net carrying amount	383	374	3,725	2,436	6,918
Additions	101	107	3,394	2,547	6,149
Disposals	–	–	(13)	–	(13)
Depreciation	(185)	(197)	(1,788)	(1,299)	(3,469)
Exchange difference	28	15	91	–	134
Closing net carrying amount	327	299	5,409	3,684	9,719
At 31 December 2011					
Cost	1,883	1,194	12,301	8,022	23,400
Accumulated depreciation	(1,556)	(895)	(6,892)	(4,338)	(13,681)
Net carrying amount	327	299	5,409	3,684	9,719
Year ended 31 December 2012					
Opening net carrying amount	**327**	**299**	**5,409**	**3,684**	**9,719**
Additions	**781**	**135**	**2,476**	**982**	**4,374**
Disposals	**–**	**(1)**	**–**	**–**	**(1)**
Depreciation	**(403)**	**(163)**	**(2,331)**	**(1,654)**	**(4,551)**
Exchange difference	**12**	**2**	**23**	**–**	**37**
Closing net carrying amount	**717**	**272**	**5,577**	**3,012**	**9,578**
At 31 December 2012					
Cost	**2,608**	**1,333**	**14,707**	**9,004**	**27,652**
Accumulated depreciation	**(1,891)**	**(1,061)**	**(9,130)**	**(5,992)**	**(18,074)**
Net carrying amount	**717**	**272**	**5,577**	**3,012**	**9,578**

17. INTERESTS IN SUBSIDIARIES – COMPANY

	2012 *HK$'000*	2011 *HK$'000*
Unlisted investments, at cost	**14,004**	14,004
Amount due from a subsidiary	**38,967**	21,931

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

Particulars of the principal subsidiaries as at 31 December 2012 are as follows:

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

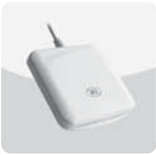
17. INTERESTS IN SUBSIDIARIES – COMPANY *(continued)*

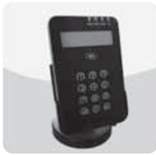
Particulars of the principal subsidiaries as at 31 December 2012 are as follows: *(continued)*

Name	Place of incorporation/ establishment and kind of legal entity	Particulars of issued shares/ registered capital	Percentage of issued shares/ registered capital attributable to the Company Directly	Indirectly	Principal activities and place of operations
ACS Technologies (Shenzhen) Limited*	PRC, wholly foreign owned enterprise	Registered capital of HK$14,000,000 (2011: HK$9,000,000)	–	100	Development, sales and distribution of smart card products, software and hardware and the provision of smart card related services in the PRC
Logyi Limited*	PRC, wholly foreign owned enterprise	Registered capital of HK$3,500,000	–	100	Development of smart card products, software and hardware and the provision of smart card related services in the PRC
Teczo.com, Limited	Hong Kong, limited liability company	1 ordinary share of HK$1	–	100	Development and supply of on-line enterprise management solutions in Hong Kong and Philippines
TaptoPay International Limited	Hong Kong, limited liability company	1 ordinary share of HK$1	100	–	Investment holding
TaptoPay Limited	Hong Kong, limited liability company	1 ordinary share of HK$1	–	100	Development and provision of products and solutions for automatic revenue collection in Hong Kong

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

* subsidiaries not audited by BDO Limited



NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

18. DEVELOPMENT COSTS – GROUP

	2012	2011
	HK$'000	*HK$'000*
At 1 January		
Gross carrying amount	**45,729**	36,483
Accumulated amortisation and impairment losses	**(23,588)**	(21,317)
Net carrying amount	**22,141**	15,166
Year ended 31 December		
Net carrying amount at 1 January	**22,141**	15,166
Capitalised during the year	**11,137**	9,246
Amortisation charge	**(3,967)**	(2,271)
Net carrying amount at 31 December	**29,311**	22,141
At 31 December		
Gross carrying amount	**56,866**	45,729
Accumulated amortisation and impairment losses	**(27,555)**	(23,588)
Net carrying amount	**29,311**	22,141

19. INVENTORIES – GROUP

	2012	2011
	HK$'000	*HK$'000*
Raw materials	**18,602**	25,319
Work-in-progress	**519**	3,408
Finished goods	**15,645**	8,118
	34,766	36,845

20. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS PAID

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade receivables	**15,770**	14,241	**–**	–
Less: Provision for impairment losses	**(239)**	–	**–**	–
Trade receivables – net	**15,531**	14,241	**–**	–
Other receivables	**1,956**	777	**–**	–
Prepayments	**1,347**	804	**165**	65
Deposits paid	**1,114**	1,188	**–**	–
	19,948	17,010	**165**	65

Customers are generally granted credit terms of 7 to 100 (2011: 14 to 100) days. Based on invoice date, ageing analysis of the Group's trade receivables (net of provision for impairment losses) is as follows:

	2012	2011
	HK$'000	*HK$'000*
0 – 30 days	**10,363**	9,944
31 – 60 days	**2,908**	2,332
61 – 90 days	**625**	677
91 – 365 days	**438**	1,133
Over 365 days	**1,197**	155
	15,531	14,241

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

At each reporting date, the Group reviewed receivables for evidence of impairment on both an individual and collective basis. As at 31 December 2012, the Group determined trade receivables of HK$239,000 (2011: Nil) as individually impaired. Based on this assessment, impairment losses of HK$239,000 (2011: Nil) are recognised for the year ended 31 December 2012. The impaired trade receivables are due from customers experiencing financial difficulties that were in default or delinquency of payments or have been past due for more than one year and have not responded to repayment demands. Movements in the Group's provision for impairment losses of trade receivables are as follows:

	2012	2011
	HK$'000	*HK$'000*
At 1 January	–	–
Impairment losses recognised	239	–
At 31 December	239	–

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

	2012	2011
	HK$'000	*HK$'000*
Not yet past due	11,115	9,938
1 – 90 days past due	2,797	3,763
91 – 180 days past due	425	358
181 – 365 days past due	404	31
Past due more than 365 days	790	151
	15,531	14,241

Trade receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired related a number of customers that had a good track record of credit with the Group. Based on past credit history, management believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered to be fully recoverable. As at 31 December 2012 and 2011, the Group did not hold any collateral in respect of trade receivables past due but not impaired.

21. HELD-TO-MATURITY FINANCIAL ASSETS – GROUP

	2012	2011
	HK$'000	*HK$'000*
Treasury bills, at amortised cost	**38**	36

Treasury bills are listed outside Hong Kong, have a fixed yield of 1.625% (2011: 1.20%) per annum and will be matured on 20 February 2013 (2011: 22 August 2012). The market value of these held-to-maturity financial assets is HK$38,000 (2011: HK$36,000).

22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash at banks and in hand	**20,870**	21,267	**359**	326
Short-term bank deposits	**13,353**	1,000	**–**	–
	34,223	22,267	**359**	326

Short-term bank deposits earn interest at 2.50% – 4.75% (2011: 0.15%) per annum and have an original maturity of 3 (2011: 1) months. These deposits are eligible for immediate cancellation without receiving any interest for the last deposit period.

Included in bank and cash balances of the Group as at 31 December 2012 are bank balances of HK$8,256,000 (2011: HK$1,247,000) denominated in Renminbi ("RMB") which are placed with the banks in the PRC. RMB is not a freely convertible currency. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through the banks that are authorised to conduct foreign exchange business.

The Company did not have any cash or deposits denominated in RMB as at 31 December 2012 (2011: Nil).

23. TRADE PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables	**9,730**	9,518	**–**	–
Accruals	**6,797**	5,420	**257**	276
Deposits received	**12,548**	20,220	**–**	–
	29,075	35,158	**257**	276

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

	2012	2011
	HK$'000	*HK$'000*
0 – 30 days	**5,596**	4,340
31 – 60 days	**3,072**	4,517
61 – 90 days	**883**	503
91 – 365 days	**142**	112
Over 365 days	**37**	46
	9,730	9,518

24. BANK BORROWINGS, SECURED – GROUP

	2012	2011
	HK$'000	*HK$'000*
Term loans	**14,218**	8,285

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

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

	2012	2011
	HK$'000	*HK$'000*
Within one year	**5,544**	3,693
In the second year	**4,096**	2,692
In the third to fifth year	**4,578**	1,900
	14,218	8,285

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

As at 31 December 2012, the Group's bank borrowings are secured by:

(i) corporate guarantee from the Company; and

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

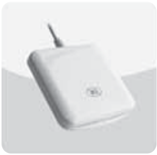
The bank loans are subjected to the fulfilment of covenants on certain financial ratios, before the repayments of principal and related interest. The Group regularly monitors its compliance with these covenants. At the reporting date, none of the covenants had been breached.

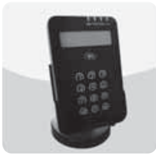
25. DEFERRED TAX LIABILITIES – GROUP

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

	2012	2011
	HK$'000	*HK$'000*
At 1 January	**900**	641
(Credited)/Charged to profit or loss (note 10)	**(171)**	259
At 31 December	**729**	900

The Group has unrecognised estimated tax losses of HK$14,234,000 (2011: HK$6,653,000) to carry forward against future taxable income. Under the current tax legislation, unrecognised estimated tax losses of HK$2,247,000 (2011: HK$3,695,000) related to certain subsidiaries operating in the PRC are subject to expiry period of five years from the year in which the tax loss arose. The remaining estimated tax losses of HK$11,987,000 (2011: HK$2,958,000) are related to certain subsidiaries operating in Hong Kong and can be carried forward indefinitely. No deferred tax asset has been recognised in respect of the estimated tax losses due to the unpredictability of future profit streams against which these unused tax losses can be utilised.





26. DEFINED BENEFIT OBLIGATIONS – GROUP

The Group makes contributions to a separate defined benefit plan for qualifying employees in 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 and the Group expected to contributes HK$43,000 to its defined benefit plan in the next financial year. The defined benefit plan is administrated by a trustee that is legally separated from the Group. The trustee shall be responsible for the general administration of the plan and the management of the fund and is required by the law to act in the best interest of the plan participants and responsible for the investment policy with regard to the assets of the fund. Under the plan, all benefits under the plan shall be payable to the employee in the form of a single sum equal to 100% of final salary for each year of service until their retirement. Amounts recognised in total comprehensive income in respect of the defined benefit plan are as follows:

	2012	2011
	HK$'000	*HK$'000*
Service costs		
– Current service costs	69	–
– Past service costs	229	–
Amount recognised in profit or loss (note 14)	298	–
Remeasurement on net liability arising from defined benefit obligations		
– Return on plan assets, excluding interest income	(12)	–
– Actuarial losses arising from changes in financial assumptions	244	–
Amount recognised in other comprehensive income	232	–
Total defined benefit costs	530	–

The current service costs and past service costs for the year is included in administrative expenses.

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

	2012	2011
	HK$'000	*HK$'000*
Present value of funded defined benefit obligations	556	–
Fair value of plan assets	(253)	–
Net liability arising from defined benefit obligations	303	–

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

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

	2012	2011
	HK$'000	*HK$'000*
Equity investment funds	253	–

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

	2012	2011
	HK$'000	*HK$'000*
Fair value of plan assets		
At 1 January	–	–
Contributions from the Group	241	–
Return on plan assets, excluding interest income	12	–
At 31 December	253	–

	2012	2011
	HK$'000	*HK$'000*
Present value of defined benefit obligations		
At 1 January	–	–
Past service costs	229	–
Current service costs	69	–
Actuarial losses arising from changes in financial assumptions	244	–
Exchange difference	14	–
At 31 December	556	–

10.3% of the benefits are vested at the end of the reporting period (2011: not applicable). The weighted average duration of the defined benefit obligations at the end of the reporting period is 19.3 years.

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

The most recent actuarial valuation of the present value of the defined benefit obligations was carried out at 31 December 2012 by E.M. Zalamea Actuarial Services, Inc. (who is a Member of the International Actuarial Association, Fellow of the Actuarial Society of the Philippines and Member of the International Association of Consulting Actuaries), using the projected unit credit method. Based on the actuarial valuation, 46% of the Group's obligations under the defined benefit plan are covered by the plan assets held by the trustee (2011: not applicable). The shortfall of HK$303,000 (2011: Nil) is to be cleared over the estimated remaining service period. The principal assumptions used for the purpose of the actuarial valuations are as follows:

	2012	2011
Discount rate	5.62%	N/A
Future salary increase	5.00%	N/A
Withdrawal rate	55%	N/A
Normal retirement age	60	N/A
Average age of current members	27.3	N/A

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

	Defined benefit obligations	
	100 bp increase	100 bp decrease
	HK$'000	*HK$'000*
Discount rate	(80)	95
Future salary increase	89	(77)
Withdrawal rate	(4)	4

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

The above sensitivities are based on the duration of the benefit obligations determined at the date of the last full actuarial valuation at 31 December 2012.

27. SHARE CAPITAL

	2012 Number of shares *'000*	*HK$'000*	2011 Number of shares *'000*	2011 *HK$'000*
Ordinary shares of HK$0.10 each				
Authorised:				
At 1 January and 31 December	**1,000,000**	**100,000**	1,000,000	100,000
Issued and fully paid:				
At 1 January	**283,161**	**28,316**	283,161	28,316
Issue of ordinary shares upon exercise of share options	**897**	**90**	–	–
At 31 December	**284,058**	**28,406**	283,161	28,316

28. SHARE-BASED COMPENSATION

Pursuant to resolutions of the shareholders passed on 27 October 2003, a share option scheme (the "Scheme") was adopted. Share options were granted under the Scheme to those employees of the Group and directors of the Company and consultants engaged by or who worked for the Group. Accordingly, the Company issued share options under the Scheme to subscribe for shares of HK$0.10 each at an exercise price of HK$0.24 per share.

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

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

28. SHARE-BASED COMPENSATION *(continued)*

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

	Grant date	At 1 January	Granted	Exercised	Lapsed	At 31 December	Period during which the share options are exercisable	Exercise price per share
		Number of share options						
2012								
Employees	27 October 2003	900,776	–	(896,517)	–	4,259	10 May 2004 to 20 January 2013	HK$0.24
2011								
Employees	27 October 2003	900,776	–	–	–	900,776	10 May 2004 to 20 January 2013	HK$0.24

Notes:

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

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

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

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

The total number of securities available for issue under the Scheme as at 31 December 2012 was 4,259 (2011: 900,776) shares, which represented 0.001% (2011: 0.318%) of the issued share capital of the Company at that date. The maximum number of securities issued and to be issued upon exercise of the share options granted shall be 6,535,631 shares of HK$0.10 each.

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

The share options outstanding at 31 December 2012 had a weighted exercise price of HK$0.24 (2011: HK$0.24) and a weighted average remaining contractual life of 0.1 year (2011: 1.1 years).

29. RESERVES

Company

	Share premium HK$'000	(Accumulated losses)/ Retained profits HK$'000	Proposed dividend HK$'000	Total HK$'000
Balance as at 1 January 2011	17,829	(9,102)	–	8,727
Loss for the year	–	(993)	–	(993)
Other comprehensive income for the year	–	–	–	–
Total comprehensive income for the year	–	(993)	–	(993)
Balance as at 31 December 2011 and 1 January 2012	17,829	(10,095)	–	7,734
Issue of shares upon exercise of share options	126	–	–	126
Transaction with owners	126	–	–	126
Profit for the year	–	16,972	–	16,972
Other comprehensive income for the year	–	–	–	–
Total comprehensive income for the year	–	16,972	–	16,972
2012 Final dividend proposed	–	(4,261)	4,261	–
Balance as at 31 December 2012	**17,955**	**2,616**	**4,261**	**24,832**

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

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

29. RESERVES *(continued)*

Group

The amount of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 40 of the financial statements.

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

30. OPERATING LEASE COMMITMENTS

The Group leases a number of properties under operating lease arrangements. Leases are negotiated for terms of one to five years (2011: one to five years). None of the leases include contingent rentals.

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

	2012 *HK$'000*	2011 *HK$'000*
Within one year	3,645	2,245
In the second to fifth years, inclusive	1,681	1,064
	5,326	3,309

The Company did not have any significant operating lease commitments as lessee as at 31 December 2012 (2011: Nil).

31. RELATED PARTY TRANSACTIONS

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

	2012 *HK$'000*	2011 *HK$'000*
Salaries and other short-term employee benefits	7,779	6,850
Retirement benefits costs	108	96
	7,887	6,946

At 31 December 2012, the Company has given corporate guarantees to the banks to the extent of HK$44,000,000 (2011: HK$28,000,000) for certain banking facilities granted to one of its subsidiaries.

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

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

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

Financial risk management is coordinated at the Group's headquarters, in close co-operation with the board of directors. The overall objectives in managing financial risks focus on securing the Group's short to medium-term cash flows by minimising its exposure to financial markets. Long term financial investments are managed to generate lasting returns with acceptable risk levels.

It is not the Group's policy to engage in the trading of financial instruments for speculative purposes.

32.1 Categories of financial instruments

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

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets				
Loans and receivables				
– Trade receivables	**15,531**	14,241	**–**	–
– Other receivables	**1,956**	777	**–**	–
– Cash and cash equivalents	**34,223**	22,267	**359**	326
– Amount due from a subsidiary	**–**	–	**38,967**	21,931
	51,710	37,285	**39,326**	22,257
Held-to-maturity financial assets	**38**	36	**–**	–
	51,748	37,321	**39,326**	22,257
Financial liabilities				
At amortised cost				
– Trade payables	**9,730**	9,518	**–**	–
– Accruals	**6,797**	5,420	**257**	276
– Bank borrowings	**14,218**	8,285	**–**	–
	30,745	23,223	**257**	276

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

32.2 Currency risk

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

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

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

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

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

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

32.2 Currency risk *(continued)*

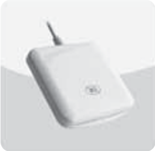
The following table details the foreign currency denominated financial assets and financial liabilities of the Company, translated into HK$ at the closing rates:

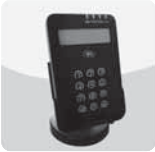
	Expressed in HK$'000		
	EURO	US$	RMB
As at 31 December 2012			
Cash and cash equivalents	–	240	–
Accruals	–	(6)	–
Net exposure	–	234	–

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

At 31 December 2012, if HK$ had weakened/strengthened by 5% against EURO and RMB with all other variables held constant, the Group's profit after income tax for the year would have been HK$354,000 (2011: HK$150,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of EURO and RMB. As HK$ is pegged to US$, the Group's and the Company's income and operating cash flows are substantially independent of changes in exchange rates of US$.

The stated changes represented management's best assessment of reasonably possible changes in foreign exchange rates over the period until the next annual reporting date. The analysis is performed on the same basis for the year ended 31 December 2011.





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

32.3 Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group borrows loans and places deposits with banks at floating interest rates. Exposure to floating interest rate presents when there are unexpected interest rate movements. The Group has not used any interest rate swap to hedge its exposure to interest rate risk.

At 31 December 2012, if interest rates had increased/decreased by 0.5% (2011: 0.5%), with all other variables held constant, the Group's profit after income tax for the year would increase by approximately HK$82,000 (2011: HK$6,000)/decrease by approximately HK$90,000 (2011: HK$6,000). As the Company does not have significant interest-bearing assets and liabilities, the Company's income and operating cash flows are substantially independent of changes in market interest rate.

The stated changes represented management's best assessment of reasonably possible changes in interest rates over the period until the next annual reporting date. The analysis is performed on the same basis for the year ended 31 December 2011.

32.4 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from the credit terms granted to the customers in the ordinary course of operations and from its investing activities. The Group does not provide any financial guarantee which exposes to credit risk. The Company's maximum exposure to credit risk which will cause a financial loss to the Company is due to financial guarantee provided to a subsidiary, the Company is exposed to credit risk for maximum amount of HK$44,000,000 (2011: HK$28,000,000).

Credit risk for trade receivables is concentrated as 22% (2011: 31%) of total trade receivables are due from the Group's largest debtor. However, management of the Group closely monitors the collection of payments from customers and review the overdue balances regularly. For sales to new customers, deposits are received to mitigate credit risk. The Group has also adopted a no-business policy with customers lacking an appropriate credit history. In this regards, directors consider that the credit risk on trade receivables is significantly reduced.

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

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

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

32.5 Liquidity risk

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

The Group's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term. The liquidity policies have been followed by the Group since prior years and are considered to have been effective in managing liquidity risks.

Analysed below is the Group's remaining contractual maturities for its financial liabilities as at 31 December 2012 and 2011. When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date which the Group can be required to pay. Bank borrowings with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choose to exercise their rights within one year after the reporting date. The maturity analysis for other financial liabilities is prepared based on the scheduled repayment dates.

	On demand or within 1 year *HK$'000*	Between 1 and 2 years *HK$'000*	Between 2 and 5 years *HK$'000*
At 31 December 2012			
Trade payables	**9,730**	**–**	**–**
Accruals	**6,797**	**–**	**–**
Bank borrowings*	**14,218**	**–**	**–**
	30,745	**–**	**–**
At 31 December 2011			
Trade payables	9,518	–	–
Accruals	5,420	–	–
Bank borrowings*	8,285	–	–
	23,223	–	–

* Bank borrowings with a repayment on demand clause are categorised as "On demand or within 1 year" in the above maturity analysis. As at 31 December 2012, the aggregate undiscounted principal amounts of these financial liabilities amounted to HK$15,003,000 (2011: HK$8,608,000).

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

32.5 Liquidity risk *(continued)*

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

	Within 1 year	Between 1 and 2 years	Between 2 and 5 years
	HK$'000	*HK$'000*	*HK$'000*
At 31 December 2012			
Bank borrowings	5,954	4,344	4,705
At 31 December 2011			
Bank borrowings	3,887	2,778	1,943

Except for the accruals stated in the Company's statement of financial position, which are due to be settled within 1 year, the Company has no financial liabilities other than financial guarantee issued as at 31 December 2012 and 2011 (notes 24(i) and 31), which represented the maximum amount the Company could be forced to settle if that amount is claimed by the counterparty to the guarantee. Based on expectations as at the reporting date, the directors of the Company considers that it is more likely than not that such an amount will not be payable under the arrangement.

32.6 Fair value measurements

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

33. CAPITAL RISK MANAGEMENT

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders by pricing goods and services commensurately with the level of risk.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities.

The capital structure of the Group consists of debt, which includes the bank borrowings disclosed in note 24, and equity attributable to owners of the Company, comprising issued share capital disclosed in note 27 and reserves as disclosed in note 29 and the consolidated statement of changes in equity. The Group will balance its overall capital structure through the payment of dividends, issues of shares as well as the issue of new debt or the redemption of existing debt. The Group's overall strategy remains unchanged throughout the year.

Subsidiaries established in the PRC are required to contribute to and maintain a non-distributable statutory reserve fund whose utilisation is subject to certain restrictions as set out in the relevant regulations in the PRC. In addition, the Group is subjected to the requirement on maintenance of certain financial ratios imposed by the banks as disclosed in note 24. The externally imposed capital requirements have been complied with by the Group for the years ended 31 December 2012 and 2011.

34. COMPARATIVE FIGURES

The Group previously classified bank charges as finance costs. Depending on its nature, bank charges of HK$449,000 for the year ended 31 December 2011 were now reclassified into selling and distributions costs, research and development expenses and administrative expenses in the consolidated statement of comprehensive income for a fairer presentation of the results of the period. The reclassification also led to a decrease of equivalent amount in net cash generated from operating activities and net cash used in financing activities of the Group.

FINANCIAL SUMMARY

31 December

	2012	2011	2010	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
RESULTS					
Revenue	**160,855**	117,488	93,729	104,963	96,094
Cost of sales and services provided	**74,009**	57,043	43,086	52,521	51,625
Gross profit	**86,846**	60,445	50,643	52,442	44,469
Gross profit margin	**54%**	51%	54%	50%	46%
Profit for the year	**16,874**	5,119	4,434	12,219	9,704
Net profit margin	**10%**	4%	5%	12%	10%
ASSETS AND LIABILITIES					
Total assets	**127,864**	108,018	81,741	76,758	58,154
Total liabilities	**47,790**	45,053	24,301	20,853	12,342
Total equity	**80,074**	62,965	57,440	55,905	45,812