



Advanced Card Systems Holdings Limited

龍傑智能卡控股有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8210)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2014

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 announcement, 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 announcement 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 announcement misleading.

* For identification purpose only

HIGHLIGHTS

- Revenue of the Group for the year ended 31 December 2014 increased by 27% to HK\$246.3 million from the year ended 31 December 2013.
- Profit for the year of the Group for the year ended 31 December 2014 increased by 2% to HK\$23.7 million from the year ended 31 December 2013.
- The board of directors of the Company has recommended the payment of a final dividend of HK2.0 cents (2013: HK2.0 cents) for the year ended 31 December 2014.

AUDITED CONSOLIDATED RESULTS

The board of directors (the “Board”) of the Company are pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group” or “ACS”) for the year ended 31 December 2014 together with the comparative figures for the corresponding period in 2013.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME For the year ended 31 December 2014

	Notes	2014 HK\$'000	2013 HK\$'000
Revenue	4	246,323	194,360
Cost of sales and services provided		(124,466)	(81,340)
Gross profit		121,857	113,020
Other income and gains	5	1,392	975
Selling and distribution costs		(20,712)	(19,218)
Research and development expenses		(37,895)	(32,498)
Administrative expenses		(37,246)	(34,292)
Finance costs	6	(612)	(759)
Share of results of a joint venture		(205)	–
Profit before income tax	7	26,579	27,228
Income tax expense	8	(2,855)	(4,025)
Profit for the year, attributable to owners of the Company		23,724	23,203
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss			
– Exchange (loss)/gain on translation of financial statements of foreign operations		(559)	820
Items that will not be reclassified subsequently to profit or loss			
– Remeasurement of defined benefit obligations		(491)	63
– Income tax relating to defined benefit obligations		147	48
Other comprehensive income for the year, net of tax		(903)	931
Total comprehensive income for the year, attributable to owners of the Company		22,821	24,134
Earnings per share for profit attributable to owners of the Company for the year	10		
– Basic (HK cents)		8.352	8.168
– Diluted (HK cents)		8.352	8.168

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2014

	Notes	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Plant and equipment	11	7,763	7,238
Intangible assets	12	42,875	32,260
Goodwill	12	1,972	–
Interests in a joint venture		2,512	–
Prepayment		377	–
Deferred tax assets		915	593
		56,414	40,091
Current assets			
Inventories		40,118	44,094
Trade and other receivables, prepayments and deposits paid	13	54,129	31,784
Held-to-maturity financial assets		69	71
Current tax assets		986	–
Cash and cash equivalents		35,671	48,614
		130,973	124,563
Current liabilities			
Trade payables, accruals and deposits received	14	30,819	26,566
Bank borrowings, secured		35,336	36,341
Current tax liabilities		1,758	1,028
		67,913	63,935
Net current assets		63,060	60,628
Total assets less current liabilities		119,474	100,719
Non-current liabilities			
Deferred tax liabilities		1,650	511
Defined benefit obligations		737	261
		2,387	772
Net assets		117,087	99,947
EQUITY ATTRIBUTABLE TO COMPANY'S OWNERS			
Share capital		28,406	28,406
Reserves		88,681	71,541
Total equity		117,087	99,947

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2014

	Attributable to owners of the Company						
	Share capital HK\$'000	Share premium* HK\$'000	Merger reserve* HK\$'000	Translation reserve* HK\$'000	Retained profits* HK\$'000	Proposed dividend* HK\$'000	Total HK\$'000
Balance as at 1 January 2013	28,406	17,955	4,496	886	24,070	4,261	80,074
Dividend approved in respect of previous year	-	-	-	-	-	(4,261)	(4,261)
Transactions with owners	-	-	-	-	-	(4,261)	(4,261)
Profit for the year	-	-	-	-	23,203	-	23,203
Other comprehensive income							
- Exchange gain on translation of financial statements of foreign operations	-	-	-	820	-	-	820
- Remeasurement of defined benefit obligations	-	-	-	-	63	-	63
- Income tax relating to defined benefit obligations	-	-	-	-	48	-	48
	-	-	-	820	111	-	931
Total comprehensive income for the year	-	-	-	820	23,314	-	24,134
2013 final dividend proposed (note 9)	-	-	-	-	(5,681)	5,681	-
Balance as at 31 December 2013 and 1 January 2014	28,406	17,955	4,496	1,706	41,703	5,681	99,947
Dividend approved in respect of previous year	-	-	-	-	-	(5,681)	(5,681)
Transactions with owners	-	-	-	-	-	(5,681)	(5,681)
Profit for the year	-	-	-	-	23,724	-	23,724
Other comprehensive income							
- Exchange loss on translation of financial statements of foreign operations	-	-	-	(559)	-	-	(559)
- Remeasurement of defined benefit obligations	-	-	-	-	(491)	-	(491)
- Income tax relating to defined benefit obligations	-	-	-	-	147	-	147
	-	-	-	(559)	(344)	-	(903)
Total comprehensive income for the year	-	-	-	(559)	23,380	-	22,821
2014 final dividend proposed (note 9)	-	-	-	-	(5,681)	5,681	-
Balance as at 31 December 2014	28,406	17,955	4,496	1,147	59,402	5,681	117,087

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

NOTES

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 and its subsidiaries are principally engaged in the development, sales and distribution of smart card products, software and hardware and the provision of smart card related services. 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 statement 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.

2. ADOPTION OF NEW OR AMENDED HKFRSs

2.1 New or amended HKFRSs effective for annual period beginning on or after 1 January 2014

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

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

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

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

Amendments to HKAS 32, Offsetting Financial Assets and Financial Liabilities

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

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

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

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

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

HKAS 39, Novation of Derivatives and Continuation of Hedge Accounting

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

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

HK(IFRIC)-Int 21, Levies

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

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

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

At the date of authorisation of these financial statements, certain new or amended HKFRSs have been issued but are not yet effective. The directors of the Company anticipate that these pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement.

Information on new or amended HKFRSs that have not been adopted early by the Group but expected to have impact on the Group's accounting policies is provided below. Other new or amended HKFRSs have been issued but are not yet effective and not adopted in advance are not expected to have a material impact on the Group's financial statements.

HKFRS 9, Financial Instruments

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

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

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

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

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

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

HKFRS 15, Revenue from Contracts with Customers

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

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

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

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

3. SEGMENT INFORMATION

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

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

* Included in research and development expenses is amortisation of development costs of HK\$9,315,000 (2013: HK\$8,237,000), which has also been included in the depreciation and amortisation of non-financial assets as disclosed above.

The following table set out information about the geographical location of (i) the Group's customers and (ii) the Group's plant and equipment, goodwill, intangible assets and interests in joint ventures ("specified non-current assets"). Geographical location of customers is based on the location at which the customers are resided. Geographical location of specified non-current assets is based on the physical location of the assets, in the case of plant and equipment, the location of the operations, in the case of interests in joint ventures and the location of the operation to which they are allocated, in the case of goodwill and intangible assets. The Group's revenue from external customers and specified non-current assets is divided into the following geographical areas:

	Revenue from external customers		Specified non-current assets	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
PRC, including Hong Kong and Macau (domicile) [#]	29,707	24,893	51,000	37,494
Foreign countries				
– United States	32,572	35,920	31	46
– Italy	31,346	29,222	–	–
– Republic of the Philippines	52,927	27,155	3,321	619
– Other countries	99,771	77,170	770	1,339
	216,616	169,467	4,122	2,004
	246,323	194,360	55,122	39,498

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

The Group's customer base is diversified and includes only the following customers with whom transactions have exceeded 10% of the Group's revenues. During each of the years ended 31 December 2014 and 2013, revenue derived from these customers, including sales to entities which are known to the Group to be under common control, are as follows:

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

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

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

4. REVENUE

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

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

5. OTHER INCOME AND GAINS

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

6. FINANCE COSTS

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

7. PROFIT BEFORE INCOME TAX

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

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Amortisation of intangible assets		
– Included in research and development expenses	9,315	8,237
– Included in administrative expenses	420	–
Amount recognised in profit or loss	9,735	8,237
Auditors' remuneration		
– Audit services	616	492
– Non-audit services	–	–
	616	492
Cost of inventories recognised as expense, including:	122,705	80,667
– Write-down of inventories	657	1,087
Depreciation of plant and equipment	4,369	4,804
Employee benefit expenses	68,165	47,415
Less: Amount capitalised into development cost	(12,966)	(9,670)
Amount recognised in profit or loss	55,199	47,745
Impairment losses on trade receivables	446	2
Impairment losses on other receivables	–	66
Minimum lease payments	4,663	4,108
Less: Amount capitalised into development cost	(159)	(140)
Amount recognised in profit or loss	4,504	3,968
Net foreign exchange loss	2,433	1,411
Net loss on disposals of plant and equipment	19	211

8. INCOME TAX EXPENSE

Income tax recognised in profit or loss

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

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

Philippines Income Tax has been provided at 30% (2013: 30%) on the estimated taxable income or 2% (2013: 2%) on gross income incurred for the year, whichever is higher, in accordance with the National Internal Revenue Code of the Republic of the Philippines.

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

Tax on other jurisdictions including Japan has been provided on the estimated assessable profits, if any, for the year at the rates of tax prevailing in the countries in which the Group operates.

9. DIVIDENDS

Dividends attributable to the year:

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Proposed final dividend of HK2.0 cents (2013: HK2.0 cents) per ordinary share	5,681	5,681

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

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

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

10. EARNINGS PER SHARE

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

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

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

The calculation of diluted earnings per share for the year ended 31 December 2013 is based on profit attributable to owners of the Company of HK\$23,203,000 and the weighted average of 284,059,000 ordinary shares outstanding during that year, after adjusting for the effects of all dilutive potential ordinary shares.

The weighted average number of ordinary shares used in the calculation of diluted earnings per share for the year ended 31 December 2013 is calculated based on the weighted average of 284,058,000 ordinary shares in issue during that year as used in the calculation of basic earnings per share plus the weighted average of 1,000 ordinary shares deemed to be issued at no consideration as if all the Company's outstanding share options had been exercised.

11. PLANT AND EQUIPMENT

During the year ended 31 December 2014, the Group acquired items of fixed assets in aggregate of HK\$5,055,000, which primarily consisted of leasehold improvements, furniture and fixtures, computer and office equipment, mould and motor vehicles amounted to HK\$67,000, HK\$67,000, HK\$2,558,000, HK\$1,396,000 and HK\$967,000 respectively.

12. INTANGIBLE ASSETS AND GOODWILL

In June 2014, the Group entered into two agreements with independent third parties to purchase certain business assets from Shenzhen Daming Wuzhou City Smart Card Technology Company Limited (“Daming Wuzhou”) (referred to as the “Acquisition”) for a total cash consideration of RMB5,300,000 (equivalent to approximately HK\$6,577,000), the acquisition was completed on 19 June 2014. Goodwill of HK\$1,946,000 was recognised in respect of the Acquisition.

For the year ended 31 December 2014, additions to intangible assets amounting to HK\$20,292,000 comprised development costs, customer relationships and technical know-how amounted to HK\$15,899,000, HK\$2,470,000 and HK\$1,923,000 respectively.

13. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS PAID

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Trade receivables	47,089	27,571
Less: Provision for impairment losses	(685)	(239)
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Trade receivables – net	46,404	27,332
Other receivables	4,487	1,240
Prepayments	1,792	1,950
Deposits paid	1,510	1,328
Less: Provision for impairment losses	(64)	(66)
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	54,129	31,784
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Customers are generally granted credit terms of 7 to 90 (2013: 7 to 100) days. Based on invoice date, ageing analysis of the Group’s trade receivables (net of provision for impairment losses) is as follows:

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
0–30 days	24,199	15,437
31–60 days	10,283	2,943
61–90 days	1,528	26
91–365 days	9,743	7,022
Over 365 days	651	1,904
<hr/>		
	46,404	27,332
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At each reporting date, the Group reviewed receivables for evidence of impairment on both an individual and collective basis. As at 31 December 2014, the Group determined trade receivables of HK\$685,000 (2013: HK\$239,000) and other receivables of HK\$64,000 (2013: HK\$66,000) as individually impaired. Based on this assessment, impairment losses of HK\$446,000 (2013: HK\$2,000) are recognised for trade receivables and none (2013: HK\$66,000) are recognised for other receivables for the year ended 31 December 2014. The impaired trade and other receivables are due from customers and other debtors experiencing financial difficulties that were in default or delinquency of payments or have been past due for more than one year and have not responded to repayment demands.

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

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

14. TRADE PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

	2014 HK\$'000	2013 HK\$'000
Trade payables	14,981	11,841
Accruals	8,206	8,356
Deposits received	4,487	6,369
Consideration payables in connection with the Acquisition	3,145	–
	30,819	26,566

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

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

15. COMMITMENTS

Capital commitments

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

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Contracted but not provided for in respect of acquisition of an investment to be classified under available-for-sale financial assets	881	–

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

Operating lease commitments

The Group leases a number of properties under operating lease arrangements. Leases are negotiated for terms of one to five years (2013: one to five years). None of the leases include contingent rentals.

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

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Within one year	3,663	2,540
In the second to fifth years, inclusive	2,091	442
	5,754	2,982

SCOPE OF WORK OF BDO LIMITED

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2014 have been agreed by the Company's auditor, BDO Limited, to the amounts set out in the Company's consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on the preliminary announcement.

DIVIDEND

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

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

CLOSURE OF REGISTER OF MEMBERS

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

The register of members will be closed from Friday, 24 April 2015 to Wednesday, 29 April 2015, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attendance of annual general meeting, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Thursday, 23 April 2015.

(ii) Entitlement to the Proposed Final Dividend

The register of members will be closed from Wednesday, 6 May 2015 to Friday, 8 May 2015, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Tuesday, 5 May 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

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

FINANCIAL REVIEW

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

Significant Growth in Turnover

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

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

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

Maintain Stable Profitability

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

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

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

Balance Sheet

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

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

BUSINESS REVIEW

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

Forbes Asia Best Under A Billion

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

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



Forbes Asia Best Under A Billion Forum and Awards Dinner

Awards and International Recognition

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

In 2014, this project received international recognition:

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

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

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

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

Products and Services Launched

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

ACR39T-A1 and ACR39T-A3

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

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

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

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



ACR39T-A3



ACR35 NFC MobileMate

ACR32 MobileMate and ACR35 NFC MobileMate

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

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

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

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

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

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

Contactless Smart Card Reader Module Technology

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

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

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

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

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

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

Smart Card Alliance

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

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

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

Exhibitions

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

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

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



Cartes Secure Connexions 2014

PROSPECTS

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

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

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

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

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

EMV Bank Card Personalization Centre

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

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

LIQUIDITY, FINANCIAL RESOURCES, AND CAPITAL STRUCTURE

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

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

ACQUISITIONS AND INVESTMENTS

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

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

ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

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

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

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

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

PLEDGE OF ASSETS

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

CONTINGENT LIABILITIES

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

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2014, the Group had 365 full time employees. Staff costs recognised in profit or loss amounted to HK\$55 million (2013: HK\$48 million). Remuneration policies and packages for the Group’s employees are based on individual qualifications, performance, experience, and conditions prevailing in the industry. In addition, various training sessions are offered to employees to enhance their product and market knowledge.

* For identification only.

DIRECTORS' 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.

CORPORATE GOVERNANCE

During the year, the Company has applied the principles of the Corporate Governance Code (the "Code") as set out in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM Listing Rules") of The Stock Exchange of Hong Kong Limited. The Company has complied with the code provisions of the Code except for the provision A.2 of the Code, which provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Wong Yiu Chu was appointed as the chairman and chief executive officer of the Company. The roles of chairman and chief executive officer were not separated. The Board considers that this structure does not impair the balance of power and authority between the Board and the management of the Company. The Board also believes that his appointment being both the chairman and chief executive officer is beneficial to the business prospects of the Company.

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 met with the external auditor and reviewed the Group's audited results for the year ended 31 December 2014.

By order of the Board
Advanced Card Systems Holdings Limited
WONG Yiu Chu
Chairman

Hong Kong, 27 February 2015

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

This announcement will remain on the GEM website at <http://www.hkgem.com> on the "Latest Company Announcements" page for at least 7 days from the day of its posting.