Phoenitron Holdings Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8066)

Seeing Further Going Forward

Annual Report 2010

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 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 report, for which the directors (the "Directors") of Phoenitron Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") 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 report 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 report misleading.

Contents

Corporate Information

DIRECTORS

Executive Directors

Lily Wu *(Chairman and Chief Executive Officer)*
Chang Wei Wen
Leung Quan Yue, Michelle
Yang Meng Hsiu (appointed on 11 March 2011)

Independent non-executive Directors

Chan Siu Wing, Raymond
Leung Ka Kui, Johnny
Wong Ka Wai, Jeanne

COMPLIANCE OFFICER

Lily Wu

QUALIFIED ACCOUNTANT

Lau Ka Chung *(FCPA, ACS, ACIS)*

COMPANY SECRETARY

Lau Ka Chung *(FCPA, ACS, ACIS)*

AUTHORISED REPRESENTATIVES

Lily Wu
Chang Wei Wen

AUDIT COMMITTEE

Chan Siu Wing, Raymond
Leung Ka Kui, Johnny
Wong Ka Wai, Jeanne

REMUNERATION COMMITTEE

Lily Wu
Chan Siu Wing, Raymond
Leung Ka Kui, Johnny
Wong Ka Wai, Jeanne

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P. O. Box 2681
Grand Cayman KY-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 302, Seapower Centre
73 Lei Muk Road
Kwai Chung
New Territories
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 705, George Town
Grand Cayman, Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

Nanyang Commercial Bank Limited
The Hongkong and Shanghai Banking Corporation Limited

AUDITORS

BDO Limited

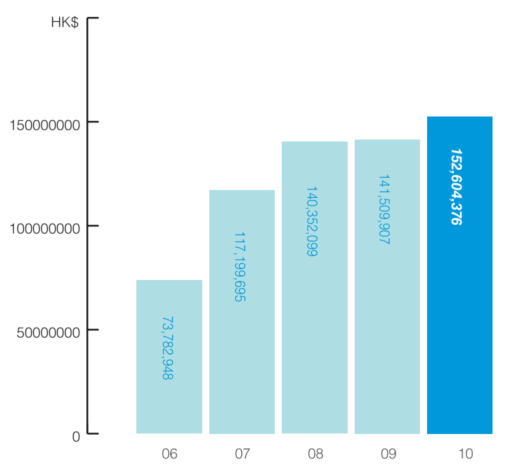
WEBSITE ADDRESS

www.phoenitron.com

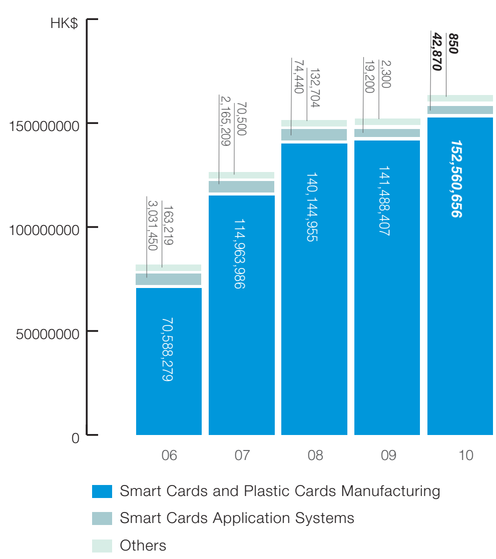
STOCK CODE

8066

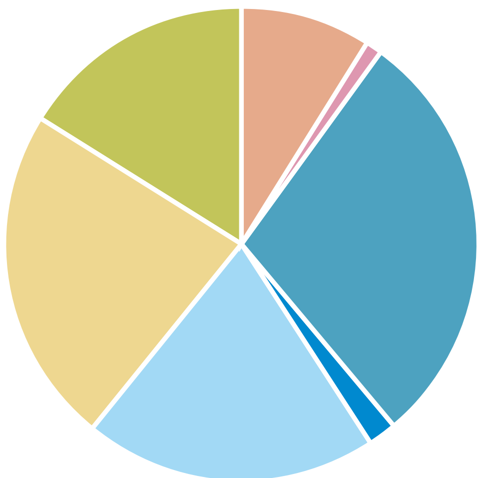
TURNOVER



TURNOVER BY SEGMENTS



TOTAL ASSETS AT 31 DECEMBER 2010



- 9% Property, plant and equipment
- 1% Other Assets
- 29% Long-term Financial Assets
- 2% Inventories
- 20% Trade and other receivables
- 23% Amount due from a jointly controlled entity
- 16% Bank balances and cash

Chairman's Statement

TO OUR SHAREHOLDERS

On behalf of the Board of Directors, I am pleased to present to you the results of Phoenitron Holdings Limited (the "Company") and its subsidiaries (together, the "Group") for the financial year ended 31 December 2010.

RESULTS

For the year ended 31 December 2010, the Company recorded a consolidated turnover of HK$152.6 million *(2009: HK$141.5 million)* and profit attributable to the owners of the Company of HK$13.5 million *(2009: HK$10.3 million)*.

DIVIDEND

The Board (the "Board") of Directors (the "Directors") of the Company recommends the payment of a final dividend of 0.4 HK cents for the year ended 31 December 2010.

BUSINESS AND OPERATION REVIEW

During the year under review, the Group was principally engaged in the manufacturing and sales of smart cards and plastic cards. The Group was also engaged in the provision of customised smart card application systems.

The Group faced a difficult and competitive business environment in the year of 2010, characterized by on-going price pressures and rising costs in China. Nonetheless, given the Group's focus on ensuring that its customers receive superior contract manufacturing service and quality, we have managed to achieve a fifth straight year of record turnover in the core business of manufacturing and sales of smart cards and plastic cards. Despite industry-wide price pressure, the Group grew turnover in the year by 7.8% to HK$152.6 million (2009: HK$141.5 million). We believe Phoenitron has increased its market share through greater volume, thanks to our highly automated smart card production facilities, distribution networks, and strong sales and marketing teams in Hong Kong, Shenzhen and Beijing which enable us to offer best-quality, new smartcard product innovations and convenient and speedy delivery services to our customers, as well as to target new customer verticals in addition to our primary telecom smartcard base.

In terms of geographic breakdown, Asian sales (not including China) became the single largest market for the Group. Revenue derived from this market accounted for 36.3% of the Group's total revenue, and up by 14.0% from HK$48.6 million in 2009 to HK$55.4 million. The PRC market (excluding Hong Kong) was the second largest market for the Group. Revenue generated from this market amounted to HK$52.1 million, rising by a significant 21.8%, and accounted for 34.1% of the Group's total revenue. The European market ranked the third largest for the Group and accounted for 29.1% of the Group's total revenue. Revenue generated from this market dropped by 9.2%, from HK$48.9 million in 2009 to HK$44.3 million.

On the other hand, revenue generated from the sales of smart card application systems was less than in the previous years, and management expects that there is unlikely to be upside changes in this market in the coming year.

During the year under review, the Group's share of losses of Hota (USA) and its subsidiaries amounted to HK$0.35 million. Hota's loss in 2010 is comprised of start-up operating expenses. Hota is now in its final phase of plant construction and has begun equipment installation. We expect Hota will start operations in Zhangjiagang with initial revenue contributions by the second quarter of 2011. Overseas operations will begin by the end of the first quarter of 2011 and will comprise mostly of scrap automobile purchases and pre-processing of select parts. In the long-term, the Board believes that the investment should provide the Group with direct exposure to the promising business opportunity presented by the recycling of metals and materials from scrapped automobiles and the sale of recovered and reusable parts. Hota's business is not only a good potential growth and profit driver for the Group, it is also an environmentally significant operation to conserve the earth's metals resources, reduce the amount of auto waste disposed globally, and increase the amount of energy efficient recycled steel production in China.

Subsequent to the year end, the Company has completed the Share Subdivision and the Open Offer (as defined and disclosed in note 40 of the "Notes to the Financial Statements").

The Share Subdivision has the effect of decreasing the nominal value and trading price of each share and increasing the total number of shares in issue. The Board is of the view that the increase in the number of shares as a result of the Share Subdivision will improve the liquidity in trading of the subdivided shares, thereby enabling the Company to attract more investors and broaden its shareholder base. The Board also believes that the implementation of the Share Subdivision is in the interests of the Company and its shareholders as a whole and would not have any adverse effect on the financial position of the Company.

As for the Open Offer, having considered other fund raising alternatives for the Group, such as bank borrowings and placing of new shares, and taking into account the benefits and cost of each of the alternatives, the Open Offer allows the Group to strengthen its balance sheet at the lowest cost and to reduce the Group's exposure to potential rising interest rates in the future. The Board considers that the Open Offer is in the interest of the Company and the shareholders as a whole as it offers all the qualifying shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and enables the qualifying shareholders to maintain their proportionate interests in the Company and to continue to participate in the future development of the Company should they wish to do so. The estimated net proceeds from the Open Offer would be approximately HK$98.15 million. The Board intends to apply such proceeds from the Open Offer as funds for the future development of the existing business of the Group, and to take advantage of future new investment should opportunities which may arise.

PROSPECTS

Looking forward, we expect 2011 will still be challenging, with likely some combination of both on-going sales and pricing pressure. We will continue to consolidate the existing SIM card businesses, manufacture with greater efficiency, seek cost and expense savings wherever possible, and to reinforce competitive strengths to solidify Phoenitron's leading position in existing markets by providing quality services and to convert challenges into opportunities.

Chairman's Statement

ACKNOWLEDGEMENT

On behalf of the Board, I would like to take this opportunity to extent our gratitude to all members of the Board and staff for their dedication and contribution to the Group throughout the year 2010. I would also like to express my heartfelt appreciation to our shareholders, business partners, investors and customers for their continuous support.

Lily WU
Chairman

Hong Kong, 21 March 2011

FINANCIAL REVIEW

Revenue

The Group's revenue was HK$152.6 million in 2010, representing an increase of 7.8% from HK$141.5 million in 2009. The increase in revenue was, however, achieved through offering price-cuts to select customers in exchange for greater sales volume.

Cost of Sales and Gross Profit

During the year under review, cost of sales increased by 19.2%, up from HK$94.3 million in 2009 to HK$112.4 million. This was due primarily to the increase in various direct costs, such as direct material costs, direct labor costs and factory overhead expenses needed to meet the increased volume orders. Many of these direct costs are RMB-based which has also appreciated relative to the HK dollar during the year. As a result, gross profit dropped to HK$40.2 million, down by HK$7.0 million, or 14.9%, as compared to last year of HK$47.2 million. The decrease in gross profit was also partly due to the price-cuts as mentioned above and also a less favorable sales mix as compared to last year. Due to the aforesaid, gross profit margin for the year ended 31 December 2010 dropped to 26.3%, as compared to 33.4% for the corresponding period in 2009.

To help off-set the negative impact of the market environment, the Group will continue to streamline its production and operations, including optimising internal resources, enhancing its cash management program, and negotiating with suppliers for better terms. Operating expenses will also be scrutinized to improve efficiency.

Other Income

Other income of HK$8.4 million (2009: HK$0.5 million) mainly comprised interest income arising from amount due from a jointly controlled entity of HK$1 million and interest income arising from amortisation of available-for-sale financial assets of HK$5.8 million, as well as bank interest income and gain on disposal of fixed assets.

Selling and Distribution Costs

Selling and distribution costs decreased by 13.4% over last year to HK$5.5 million (2009: HK$6.3 million), was mainly due to the reduction in commission paid after restructuring of the sales team, and was also partly attributable to the drop in freight charges and other relating expenses as those costs were borne by 3rd party subcontractors when orders were subcontracted out.

Administrative Expenses

Administrative expenses recorded an increase of HK$1.5 million or 6.2% over last year to HK$24.8 million (2009: HK$23.3 million). The increase was attributable to the fair value loss on the derivative arising from the conversion right to the common shares of Hota (USA) of HK$3 million but was offset by the decreases in various expenses such as exchange loss and office salary due to restructuring of the management team.

Finance Costs

In a lower interest rate environment, the Group has decided to increase its bank borrowings. During the year under review, the Group's finance costs increased by only 48.9% to HK$0.53 million (2009: HK$0.35 million) despite a 2.7 times higher loan balance.

Share of Losses of a Jointly Controlled Entity

Share of losses of a jointly controlled entity after tax was HK$0.35 million (2009: HK$1.2 million). This was derived from the start-up losses incurred by the jointly controlled entity, Hota (USA), that is engaged in the recycling of metals and materials from scrapped automobiles and sale of recovered parts. Hota has secured its business licenses and land, and is nearly in its final stage of plant and facility construction now. Hota should start manufacturing operations with initial revenue contributions by the second quarter of 2011. The Board believes that the investment in Hota should provide the Group with direct exposure to the promising business opportunity presented by the recycling of metals and materials from scrapped automobiles and the sale of recovered metals and parts. Hota's business is not only a good potential growth and profit driver for the Group, it is also an environmentally significant operation to conserve the earth's metals resources, reduce the amount of auto waste disposed globally, and increase the amount of energy efficient recycled steel production in China.

Income Tax Expense

Income tax expense of the Group in 2010 was HK$3.9 million, representing a drop of 36.8% as compared with HK$6.2 million in 2009. This was due mainly to:

(i) an under-provision of approximately HK$1.2 million was made during 2009 as a revised tax ruling in respect of the financial year ended 31 December 2008 was issued to Beijing Tecsun Venus Technology Limited, an indirect wholly-owned subsidiary of the Company, by the tax authority in Beijing.; and

(ii) the decrease in estimated taxable profits for the subsidiaries of the Company in Hong Kong and Beijing.

As a result of the foregoing, profit attributable to the owners of the Company in 2010 amounted to HK$13.5 million, representing an increase of 31.0% as compared to HK$10.3 million in 2009.

LIQUIDITY AND FINANCIAL RESOURCES/CAPITAL STRUCTURE

During the year under review, the Group financed its business operations and investments with cash revenue generated from operating activities, bank loans, finance lease arrangements and net proceeds from issuance of new shares upon exercise of unlisted warrants. As at 31 December 2010, the Group had cash and bank balances of HK$48.3 million, finance leases payable of HK$2.3 million and a secured bank loan of HK$18.7 million.

As at 31 December 2010, the Group had current assets of HK$179.2 million and current liabilities of HK$47.9 million. The current ratio, expressed as current assets over current liabilities, was maintained at a satisfactory level of 3.7.

EMPLOYEE INFORMATION

As at 31 December 2010, the Group employed a total of 597 employees, of which 14 were located in Hong Kong and the rest were located in the PRC. Employee cost, including directors' remuneration, was HK$29.6 million for the year under review. The Group remunerates its employees based on their performance, experience and the prevailing industry practice. In addition to basic salaries and participation in mandatory provident fund scheme, staff benefits include medical scheme and share options.

SIGNIFICANT INVESTMENTS

With the exception of the investments in Hota (USA) and 力欣房地產經紀(上海)有限公司, there were no other significant investments for the year ended 31 December 2010. Details of investment in Hota (USA) have been set out in "Business and Operation Review".

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group made no material acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31 December 2010.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As at 31 December 2010, there were no future plans for material investments or capital assets.

SEGMENTAL INFORMATION

Details have been set out in note 5 and are further elaborated under “Business and Operation Review” of this section.

CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

At 31 December 2010, a bank deposit and certain plant and machinery with the carrying amounts of HK$927,117 and HK$6,518,811 respectively were pledged by the Company’s subsidiaries as collaterals to secure general banking facilities granted to the Group.

The Company and certain subsidiaries have provided guarantees of repayment in respect of the facilities for bank loans and finance leases of the Group amounting to HK$56,406,776 (2009: HK$36,837,280) of which HK$20,956,851 (2009: HK$7,817,194) was utilised and outstanding as at 31 December 2010.

GEARING RATIO

The gearing ratio of the Group, expressed as a percentage of total borrowings to total assets of the Group, was 7.2% as at 31 December 2010 (2009: 4.0%). Accordingly, the financial position of the Group remains very liquid.

FINAL DIVIDEND

The Directors recommend the payment of a final dividend of 0.4 HK cents per share (2009: 1.5 HK cents) for the year ended 31 December 2010.

Upon approval by the shareholders, the final dividend will be paid on or about 17 May 2011 to shareholders whose names appear on the register of members of the Company on 9 May 2011.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The audit committee comprises three independent non-executive Directors, namely, Ms. Wong Ka Wai, Jeanne, Mr. Leung Ka Kui, Johnny, and Mr. Chan Siu Wing, Raymond. Four audit committee meetings were held during the financial year 2010.

The Group’s results for the year ended 31 December 2010 have been reviewed by the audit committee.

Management Discussion and Analysis

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The corporate governance principles of the company emphasis a quality Board, sound internal controls, transparency and accountability to all shareholders. Throughout the year of 2010, the Group compiled with the code provisions in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules, except for the code provision A2.1 stipulated in the following paragraphs.

The Code provision A2.1 stipulates that the roles of Chairman and Chief Executive Officer ("CEO") should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and Chief Executive Officer should be clearly established and set out in writing.

Ms. Lily Wu ("Ms. Wu") serves as the Chairman of the Board since 1 April 2006. Mr. Anton Ho, the former Chief Executive Officer, resigned from the post with effect from 1 January 2009 and the position was left vacant since his resignation. After due and careful consideration by the Board, Ms. Wu was further appointed as the Chief Executive Officer on 23 March 2009. The reasons for not splitting the roles of chairman and chief executive officer are as follows:

- The size of the Group is still relatively small and thus not justified to separate the roles of chairman and chief executive officer; and

- The Group has in place an internal control system to perform the check and balance function. Ms. Wu is primarily responsible for leadership of the Group and the Board, setting strategic direction, ensuring the effectiveness of management in execution of the strategy approved by the Board. Execution responsibilities lie with another executive Director and senior management of the Company.

Thus, the Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company.

COMPETING INTERESTS

As at 31 December 2010, none of the directors or the management shareholders or any of its respective associates (as defined under the GEM Listing Rules) of the Company had any interest in a business that competed or might compete with the business of the Group directly or indirectly.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

ANNUAL GENERAL MEETING

The annual general meeting (the "AGM") of the shareholders of the Company will be held at 2:00 p.m., on Monday, 9 May 2011, at Unit 302, 3rd Floor, Seapower Centre, 73 Lei Muk Road, Kwai Chung, New Territories, Hong Kong and the notice of AGM will be published and dispatched to the shareholders in the manner as required by the GEM Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 4 May 2011 to Monday, 9 May 2011, both days inclusive, during which period no transfer of the shares of the Company will be registered. In order to qualify for the proposed final dividend to be approved at the AGM and attending the AGM, all share certificates with completed transfer forms, either overleaf or separately, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Tuesday, 3 May 2011.

The Board is pleased to present this Corporate Governance Report for the year ended 31 December 2010.

INTRODUCTION

The Board believes that good corporate governance practices are essential for effective management and enhancement of shareholder value and investor confidence. The Company has taken a proactive approach in strengthening corporate governance practices, increasing transparency and sustaining accountability to shareholders through effective internal controls, under the leadership of its experienced and committed Board.

The Company has applied the principles set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 15 to the GEM Listing Rules.

In the opinion of the Board, the Company has complied with all the code provisions set out in the CG Code throughout the year ended 31 December 2010 with the exception of the code provision A.2.1 which requires that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Details relating to the foregoing deviation are summarized below.

BOARD OF DIRECTORS

The Board is responsible for overseeing the management of the business and affairs of the Group with the overriding objective of enhancing share value. With delegating authorities from the Board, management of the Company is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer.

Code provision A.2.1. stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and Chief Executive Officer should be clearly established and set out in writing.

Ms. Lily Wu ("Ms. Wu") serves as the Chairman of the Board since 1 April 2006. Mr. Anton Ho, the former Chief Executive Officer, resigned from the post with effect from 1 January 2009 and the position was left vacant since his resignation. After due and careful consideration by the Board, Ms. Wu was further appointed as the Chief Executive Officer on 23 March 2009. The reasons for not splitting the roles of chairman and chief executive officer are (i) the size of the Group is still relatively small and thus not justified in separating the roles of chairman and chief executive officer; and (ii) the Group has in place an internal control system to perform the check and balance function. Ms. Wu is primarily responsible for leadership of the Group and the Board, setting strategic direction, ensuring the effectiveness of management in execution of the strategy approved by the Board. Execution responsibilities lie with another executive Director and senior management of the Company.

The Board considers that the current structure of vesting the roles of Chairman and Chief Executive Officer in the same person will not impair the balance of power and authority between the Board and the management of the Company.

The Board comprises three executive Directors and three independent non-executive Directors whose biographical details are set out on pages 14 to 15 of this annual report. The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independence pursuant to the GEM Listing Rules and the Company considers the independent non-executive Directors to be fully independent.

All Directors have separate and independent access to senior management and the Company Secretary at all times and they are entitled to have full access to Board papers and related materials. Directors are invited to put forward agenda items for Board meetings. Agenda and accompanying Board papers are circulated not less than 3 days before Board meetings to ensure that the directors have sufficient time to review the documents.

The Board held a full board meeting in each quarter. The attendances of the Board meetings for the year ended 31 December 2010 are as follows:

Members	Attendance
Mr. Chang Wei Wen	4/4
Ms. Leung Quan Yue, Michelle	0/4
Mr. Leung Ka Kui, Johnny	3/4
Ms. Lily Wu	4/4
Ms. Wong Ka Wai, Jeanne	4/4
Mr. Chan Siu Wing, Raymond	4/4

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the year ended 31 December 2010.

REMUNERATION OF DIRECTORS

The emoluments of the Directors are determined by reference to the skill, knowledge and experience of the respective Directors and their involvement in the Company's affairs as well as the prevailing market conditions. Share options may also be granted to the directors as long-term incentive or rewards for their continuous contributions to the Group.

Pursuant to the CG Code, the Company has established a remuneration committee with written terms of reference on 14 November 2005. Members of the remuneration committee are the Chairman and the Chief Executive Officer, Ms. Lily Wu, and three independent non-executive Directors, namely, Ms. Wong Ka Wai, Jeanne, Mr. Leung Ka Kui, Johnny and Mr. Chan Siu Wing, Raymond.

The principal responsibilities of the remuneration committee include reviewing, considering and approving proposals as well as making recommendations to the Board on the Company's policy and structure relating to the remuneration of Directors and senior management.

The remuneration committee held 1 meeting during the year under review. Details of the attendance of the remuneration committee meetings are as follows:

Members	Attendance
Mr. Leung Ka Kui, Johnny	1/1
Ms. Lily Wu	1/1
Ms. Wong Ka Wai, Jeanne	1/1
Mr. Chan Siu Wing, Raymond	1/1

NOMINATION OF DIRECTORS

The Board is empowered under the Company's articles of association (the "Articles of Association") to appoint any person as a director either to fill a casual vacancy on or as an additional member of the Board. Qualified candidates will be proposed to the Board for consideration and the selection criteria are mainly based on the assessment of their professional qualifications and experience.

AUDITORS' REMUNERATION

During the year ended 31 December 2010, the fees paid/payable to the auditors of the Company in respect of audit and non-audit services provided by the auditors of the Company were as follows:

Nature of services	Amount HK$'000
Audit services	360
Non-audit services	
Taxation compliance services	34

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group. The audit committee comprises three members, Ms. Wong Ka Wai, Jeanne, Mr. Leung Ka Kui, Johnny and Mr. Chan Siu Wing, Raymond. All of them are independent non-executive Directors. The chairman of the audit committee is Ms. Wong Ka Wai, Jeanne.

The audit committee held 4 meetings during the year under review. Details of the attendance of the audit committee meetings are as follows:

Members	Attendance
Mr. Leung Ka Kui, Johnny	3/4
Ms. Wong Ka Wai, Jeanne	4/4
Mr. Chan Siu Wing, Raymond	4/4

The Group's unaudited quarterly and interim results and annual audited results during the year ended 31 December 2010 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

INTERNAL CONTROL

The Board has overall responsibility for the Group's systems of internal control and for reviewing its effectiveness. The Board will conduct regular review regarding internal control systems of the Group. During the year under review, the Board has reviewed the operational and financial reports, budgets and business plans provided by management. Besides, the audit committee of the Company and the Board also performed quarterly review on the Group's performance and internal control system in order to ensure effective measures are in place to protect material assets and identify business risks of the Group.

DIRECTORS' RESPONSIBILITY ON THE ACCOUNTS

The directors of the Company acknowledge their responsibility for preparing the accounts for the year ended 31 December 2010, which were prepared in accordance with statutory requirements and applicable accounting standards.

The reporting responsibilities of the external auditors on the accounts are set out in the "Independent Auditors' Report" on pages 22 to 23.

Profiles of Directors and Senior Management

EXECUTIVE DIRECTORS

Lily WU, aged 47, is an executive Director and the Chairman of the Company. She was appointed as Director of the Company in June 2005. Ms. Wu has 24 years of experience in the technology sector investment research and industry analysis. She is currently an independent investment analyst on technology companies for private equity firms, and has previously worked as a director in equity research for Salomon Smith Barney, and as a vice president in equity research for Bankers Trust. Ms. Wu earned a Bachelor of Science degree with Honors in Engineering from the California Institute of Technology.

LEUNG Quan Yue, Michelle, aged 45, is an executive Director. She was appointed as Director of the Company in August 2005. Ms. Leung has solid experience in investment and technology. She is a founding partner of Lunar Capital Management, a private equity fund focused on Greater China. Prior to joining the Group, she was the chief operating officer and executive director of the Tom Group (HKSE 2383 formerly Tom.com) from 2000-2004, an associate company of the Hutchison Whampoa Group. Ms. Leung joined Tom and effected a strategic redirection of the business leading to the acquisition and integration of over 30 companies in Mainland China. Prior to Tom, Ms. Leung was a Vice President at the Mergers and Acquisitions division of News Corporation in New York. She also worked in the Investment Banking division of Goldman Sachs in New York and Hong Kong. Ms. Leung also served at the United Nations as a UN Peacekeeper in missions to post-Khmer Rouge Cambodia and post-Apartheid South Africa. Ms. Leung was born and raised in Hong Kong and attended the St. Stephen's Girls' College before attending Peking University in Beijing where she obtained a diploma from the Chinese Department. She obtained a Bsc (Econ) in International Relations from the London School of Economics and an MBA from the Harvard Business School. She is fluent in English, Cantonese, Mandarin and German and conversant in French.

CHANG Wei Wen, aged 34, is an executive Director. He was appointed as a non-executive Director of the Company in May 2006 and was re-designated as an executive Director of the Company in December 2006 when he assumed key management and operating responsibilities for the Group. He formerly worked as an assistant to directors of a Taiwan company, which is principally engaged in international trade and wholesale of information software and electronic materials. Mr. Chang obtained a Bachelor of Organization Management degree from Patten University.

YANG Meng Hsiu, aged 34, is an executive Director. He was appointed as Director of the Company in March 2011. Mr. Yang graduated from The Leader University of Taiwan (currently known as The University of Kang Ning) with a bachelor degree in leisure management. Mr. Yang had more than 5 years of experience in product planning and brand name marketing business.

INDEPENDENT NON-EXECUTIVE DIRECTORS

LEUNG Ka Kui Johnny, aged 54, is an independent non-executive Director. He is one of the members of the audit committee and the remuneration committee of the Company. Mr. Leung is a qualified solicitor in Hong Kong, the United Kingdom and Singapore. He has over 26 years of experience in the legal field. Currently, he is the managing partner of Messrs. Johnny K. K. Leung & Co, a law firm in Hong Kong. Mr. Leung is currently an independent non-executive director of each of Guojin Resources Holdings Limited (formerly known as "Jackin International Holdings Limited") and Celestial Asia Securities Holdings Limited, companies whose shares are listed on the main board of the Stock Exchange. Mr. Leung was formerly an independent non-executive director of Bingo Group Holdings Limited (formerly known as "EMCOM International Limited") (a company whose shares are listed on GEM) and has resigned on 30 September 2010. Mr. Leung holds a Bachelor of Laws from the University of London, United Kingdom. Mr. Leung joined the Company in September 2001.

WONG Ka Wai, **Jeanne**, aged 46, is an independent non-executive Director. She is the chairman of the audit committee and one of the members of the remuneration committee of the Company. Ms. Wong has over 23 years of experience in finance, accounting, taxation and corporate affairs. Ms. Wong is a member of the Institute of Chartered Accountants in Australia, a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a member of the Society of Trust and Estate Practitioners. She holds a Bachelor Degree in Economics from the University of Sydney, Australia. Ms. Wong is currently the Managing Director of Wellex Consultancy Limited, a registered Insurance Agent, as well as the Chief Financial Officer and Consultant of a local law firm and CPA firm. Ms. Wong is also an independent non-executive director of Hua Xia Healthcare Holdings Limited, a company whose shares are listed on GEM of the Stock Exchange. Ms. Wong joined the Company in September 2001.

CHAN Siu Wing, **Raymond**, aged 46, is an independent non-executive Director. He is currently the chief operating officer of Chinachem Group and executive director of ENM Holdings Limited, a company whose shares are listed on the main board of the Stock Exchange. Mr. Chan has over 20 years of experience in the fields of accounting, taxation, finance and investments. Mr. Chan holds a Bachelor of Economics Degree from the University of Sydney. Mr. Chan is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants, a Certified Practicing Accountant of CPA Australia and a Founding Member of the Macau Society of Certified Practicing Accountants.

For the period from 28 September 2004 to 22 December 2009, Mr. Chan was an independent non-executive director of Prosperity Investment Holdings Limited ("**Prosperity**"). For the period from 2 April 2009 to 7 April 2010, Mr. Chan was an independent non-executive director of Karce International Holdings Limited ("**Karce**"). Both Prosperity and Karce are companies whose shares are listed on the main board of the Stock Exchange. For the period from 1 September 2008 to 30 November 2010, Mr. Chan was an independent non-executive director of Pan Asia Mining Limited, a company whose shares are listed on GEM of the Stock Exchange.

SENIOR MANAGEMENT

LAU Ka Chung, aged 38, is the financial controller and the Company Secretary of the Group. Mr. Lau has over 14 years of experience in auditing, accounting & finance, taxation and corporate compliance. Mr. Lau holds a Master degree in Corporate Governance from the Hong Kong Polytechnic University and a Bachelor Degree in Business Administration (majoring in Finance) from the Hong Kong University of Science and Technology. He is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants, as well as an associate member of The Institute of Chartered Secretaries and Administrators in United Kingdom and The Hong Kong Institute of Chartered Secretaries in Hong Kong. Mr. Lau joined the Group in May 2003.

Directors' Report

The Directors have pleasure in submitting the annual report of the Company together with its audited consolidated financial statements for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and provision of management services. Details of the principal activities of its subsidiaries are set out in note 20 to the financial statements.

The revenue of the Group is derived principally from the manufacturing and sales of smart cards and plastic cards, and the provision of customised smart card application systems.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2010 are set out in the consolidated statement of comprehensive income on page 24.

The Directors recommend the payment of a final dividend of 0.4 HK cents per share *(2009: 1.5 HK cents)*.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 33 to the financial statements respectively.

DIRECTORS

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

Executive Directors

Lily Wu *(Chairman and Chief Executive Officer)*
Chang Wei Wen
Leung Quan Yue, Michelle
Yang Meng Hsiu (appointed on 11 March 2011)

Independent non-executive Directors

Chan Siu Wing, Raymond
Leung Ka Kui, Johnny
Wong Ka Wai, Jeanne

In accordance with Article 86(3) of the Articles of Association, Mr. Yang Meng Hsiu retires at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

In accordance with Article 87(1) of the Articles of Association, Ms. Lily Wu and Ms. Leung Quan Yue, Michelle retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment during the year are set out in note 18 to the financial statements.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance (as defined in rule 18.25 of the GEM Listing Rules) to which the Company or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SHARE CAPITAL AND SHARE OPTIONS

There was no movement in the Company's authorised share capital during the year. Details of the movement in the Company's issued share capital and share option scheme during the year are set out in notes 31 and 32 to the financial statements.

DISTRIBUTABLE RESERVES

The Company's reserve available for distribution represents the contributed surplus and other reserves less accumulated losses. At the balance sheet date, the Company had HK$140,725,545 reserves available for distribution.

DIRECTORS' INTERESTS AND CHIEF EXECUTIVES' INTERESTS IN SHARE CAPITAL AND OPTIONS

As at 31 December 2010, the interests or short position of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required 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 were taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein, or which were required, pursuant to Rules 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Name of director	Nature of Interest	Long/short Position	Number of shares of the Company	Number of underlying shares of the Company	Approximate percentage of interest in the Company's issued share capital
Lily Wu *(Note 1)*	Beneficial owner	Long	1,000,000	5,000,000	0.20
Chang Wei Wen *(Note 2)*	Beneficial owner	Long	5,800,000	–	0.19
Leung Quan Yue, Michelle *(Note 3)*	Beneficial owner	Long	200,000	2,500,000	0.09

Notes:

1. These include (a) an interest in 1,000,000 Offer Shares, which Ms. Wu has underwritten pursuant to the Underwriting Agreement; and (b) 5,000,000 Share Options conferring rights to subscribe for 5,000,000 Shares.

2. These include an interest in 1,400,000 Offer Shares, which Mr. Chang has underwritten pursuant to the Underwriting Agreement.

3. These include (a) an interest in 200,000 Offer Shares, which Ms. Leung has underwritten pursuant to the Underwriting Agreement; and (b) 2,500,000 Share Options conferring rights to subscribe for 2,500,000 Shares.

Save as disclosed above, as at 31 December 2010, none of the Directors and chief executives or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or 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 were taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered into the register referred to therein, or which were required, pursuant to Rules 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2010, the following persons/companies had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying voting rights to vote in all circumstances at general meetings of the Company or any other member of the Group:

Name of shareholders	Type of Interests	Long/short Position	Number of shares of the Company	Approximate percentage of Interests
Golden Dice Co., Ltd *(Note 1)*	Beneficial	Long	680,960,000	24.67
Mr. Tsai Chi Yuan *(Note 1)*	Interests in controlled company	Long	680,960,000	24.67
Best Heaven Limited *(Note 2)*	Beneficial	Long	316,500,000	11.47
Mr. Chu Chen Lin *(Note 2)*	Interests in controlled company	Long	316,500,000	11.47

Notes:

1. These include an interest in 268,960,000 Offer Shares, of which 41,200,000 Offer Shares derived from Golden Dice's undertaking to apply for such number of Offer Shares and 227,760,000 Offer Shares which Golden Dice has underwritten pursuant to the Underwriting Agreement. Mr. Tsai Chi Yuan is deemed to be a substantial shareholder of the Company by virtue of his 100% beneficial interest in Golden Dice

2. Mr. Chu Chen Lin is deemed to be a substantial shareholder of the Company by virtue of his 100% beneficial interest in Best Heaven Limited.

Save as disclosed above, as at 31 December 2010, the Directors are not aware of any other persons or corporation (other than the Directors and chief executive of the Company) having an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

MAJOR CUSTOMERS AND SUPPLIERS

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:

Sales

– the largest customer	29%
– five largest customers in aggregate	87%

Purchases

– the largest supplier	22%
– five largest suppliers in aggregate	91%

At no time during the year have the Directors, their associates or any shareholders of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had an interest in the Group's five largest suppliers or customers during the year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association, or the laws and regulations of the Cayman Islands, which would oblige the Company to offer new shares on pro-rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPETING INTERESTS

As at 31 December 2010, none of the Directors or the management shareholders or any of their respective associates (as defined under the GEM Listing Rules) of the Company had any interest in a business that competed or might compete with the business of the Group directly or indirectly.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the past five financial years is set out on page 94 of the annual report.

AUDITORS

The financial statements in respect of the previous two financial years were audited by Grant Thornton ("GTHK"), now known as JBPB & Co. Pursuant to a merger of the businesses of GTHK and BDO Limited ("BDO") to practice in the name of BDO as announced on 26 November 2010, GTHK resigned and BDO was appointed as auditors of the Company effective from 17 January 2011. The financial statements for the year ended 31 December 2010 were audited by BDO.

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO as auditor of the Company.

For and on behalf of the Board
Lily Wu
Chairman

Hong Kong, 21 March 2011

Independent Auditors' Report

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To the shareholders of Phoenitron Holdings Limited 品創控股有限公司
(Formerly known as Cardlink Technology Group Limited 鍇聯科技集團有限公司)
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Phoenitron Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 24 to 93, which comprise the consolidated and the Company statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity 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.

AUDITORS' RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, 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
Chiu Wing Cheung Ringo
Practising Certificate no. P04434

Hong Kong, 21 March 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Notes	2010 HK$	2009 HK$
Revenue	6	**152,604,376**	141,509,907
Cost of sales		**(112,448,983)**	(94,307,118)
Gross profit		**40,155,393**	47,202,789
Other income	7	**8,413,052**	501,974
Selling and distribution costs		**(5,489,606)**	(6,341,575)
Administrative expenses		**(24,765,581)**	(23,311,342)
Finance costs	8	**(527,821)**	(354,587)
Share of losses of a jointly controlled entity		**(346,924)**	(1,161,881)
Profit before income tax	9	**17,438,513**	16,535,378
Income tax expense	10	**(3,942,871)**	(6,236,985)
Profit for the year	11	**13,495,642**	10,298,393
Other comprehensive income			
Changes in fair value of available-for-sale financial assets		**2,058,355**	5,915,760
Exchange gain on translation of financial statements of foreign operations		**1,938,169**	1,849,017
Other comprehensive income for the year		**3,996,524**	7,764,777
Total comprehensive income for the year		**17,492,166**	18,063,170
		HK cents	HK cents (Restated)
Earnings per share	13		
– Basic		**0.537**	0.439
– Diluted		**0.507**	0.432

Consolidated Statement of Financial Position

As at 31 December 2010

	Notes	At 31 December 2010 HK$	At 31 December 2009 HK$ (Restated)	At 1 January 2009 HK$ (Restated)
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	18	26,431,378	35,637,560	40,179,593
Intangible assets	19	420,000	–	–
Interest in an associate	21	1,135,136	1,135,136	1,135,136
Long-term financial assets	22	83,680,030	78,787,860	27,461,681
		111,666,544	115,560,556	68,776,410
Current assets				
Inventories	23	6,280,020	6,829,843	7,841,812
Trade and other receivables	24	57,521,989	41,483,512	36,509,513
Amount due from a jointly controlled entity	25	67,103,364	–	–
Pledged bank deposits	26	927,117	926,972	926,615
Cash and cash equivalents	27	47,340,764	32,949,818	42,698,969
		179,173,254	82,190,145	87,976,909
Current liabilities				
Trade and other payables	28	26,532,929	26,217,755	22,720,555
Borrowings	29	20,956,851	5,521,649	12,221,334
Current tax liabilities		377,912	1,319,812	1,526,167
		47,867,692	33,059,216	36,468,056
Net current assets		131,305,562	49,130,929	51,508,853
Total assets less current liabilities		242,972,106	164,691,485	120,285,263
Non-current liabilities				
Borrowings	29	–	2,295,545	6,362,321
Deferred tax liabilities	30	4,707	4,707	466,364
		4,707	2,300,252	6,828,685
Net assets		242,967,399	162,391,233	113,456,578
EQUITY				
Share capital	31	55,192,000	48,910,000	45,810,000
Reserves	33	187,775,399	113,481,233	67,646,578
Total equity		242,967,399	162,391,233	113,456,578

Lily Wu
Director

Chang Wei Wen
Director

Statement of Financial Position

As at 31 December 2010

	Notes	2010 HK$	2009 HK$
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	20	107,788,247	132,596,236
Current assets			
Other receivables	24	5,734,022	451,914
Amount due from a jointly controlled entity	25	67,103,364	–
Cash and cash equivalents	27	17,573,472	842,617
		90,410,858	1,294,531
Current liabilities			
Other payables	28	805,615	1,052,524
Current tax liabilities		115,937	–
		921,552	1,052,524
Net current assets		89,489,306	242,007
Net assets		197,277,553	132,838,243
EQUITY			
Share capital	31	55,192,000	48,910,000
Reserves	33	142,085,553	83,928,243
Total equity		197,277,553	132,838,243

Lily Wu
Director

Chang Wei Wen
Director

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Notes	2010 HK$	2009 HK$
Cash flows from operating activities			
Profit for the year before taxation		17,438,513	16,535,378
Adjustments for:			
Depreciation		13,615,899	13,554,802
Fair value loss on a derivative		2,928,235	–
Foreign exchange		1,079,060	785,790
Finance costs		527,821	354,587
Gain on disposal of property, plant and equipment		(376,297)	(31,702)
Interest income		(7,094,194)	(41,749)
Share of results of a jointly controlled entity		346,924	1,161,881
Write down of inventories to net realisable value		382,949	–
Operating profit before working capital changes		28,848,910	32,318,987
Decrease in inventories		166,874	1,011,969
Increase in trade and other receivables		(10,769,984)	(4,973,999)
(Decrease)/Increase in trade and other payables		(31,750)	3,985,754
Cash generated from operations		18,214,050	32,342,711
Interest paid		(392,567)	(99,290)
Income taxes paid		(4,884,771)	(7,003,130)
Net cash generated from operating activities		12,936,712	25,240,291
Cash flows from investing activities			
Acquisition of investments		–	(46,572,300)
Interest received		1,332,144	41,749
Increase in amount due from a jointly controlled entity		(67,103,364)	–
Increase in loan receivables		(5,268,493)	–
Increase in pledged bank deposits		(145)	(357)
Purchase of property, plant and equipment		(3,953,283)	(8,638,700)
Purchase of intangible assets		(420,000)	–
Proceeds from disposal of property, plant and equipment		408,149	17,516
Net cash used in investing activities		(75,004,992)	(55,152,092)

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Notes	2010 HK$	2009 HK$
Cash flows from financing activities			
Capital element of finance leases payments		(4,066,773)	(3,946,731)
Interest element of finance leases payments		(135,254)	(255,297)
Dividends paid		(7,354,500)	(6,871,500)
Proceeds from shares issued		70,438,500	38,430,000
Proceeds from issue of non-listed warrants		–	1,540,500
Proceeds from new bank loans		22,346,324	–
Repayments of bank loans		(5,139,894)	(6,819,730)
Share issue expenses		–	(2,123,085)
Non-listed warrants issue expenses		–	(95,000)
Net cash generated from financing activities		76,088,403	19,859,157
Net increase/(decrease) in cash and cash equivalents		14,020,123	(10,052,644)
Cash and cash equivalents at 1 January		32,949,818	42,698,969
Effect of foreign exchange rate changes		370,823	303,493
Cash and cash equivalents at 31 December	27	47,340,764	32,949,818

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Share capital HK$	Contributed surplus HK$	Share option reserve HK$	Other reserves HK$	Translation reserve HK$	Available-for-sale financial assets revaluation reserve HK$	Warrant reserve HK$	Accumulated profits HK$	Total HK$
At 1 January 2009	45,810,000	51,611,489	2,448,014	7	4,994,418	(5,915,760)	–	14,508,410	113,456,578
2008 final dividend paid (note 12)	–	(6,871,500)	–	–	–	–	–	–	(6,871,500)
Issue of new shares on placement	3,000,000	34,500,000	–	–	–	–	–	–	37,500,000
Issue of new shares upon exercise of share options	100,000	830,000	–	–	–	–	–	–	930,000
Share issue expenses	–	(2,132,515)	–	–	–	–	–	–	(2,132,515)
Issue of non-listed warrants	–	–	–	–	–	–	1,445,500	–	1,445,500
Transactions with owners	3,100,000	26,325,985	–	–	–	–	1,445,500	–	30,871,485
Profit for the year	–	–	–	–	–	–	–	10,298,393	10,298,393
Other comprehensive income									
– Changes in fair value of available-for-sale financial assets	–	–	–	–	–	5,915,760	–	–	5,915,760
– Translation of foreign operations	–	–	–	–	1,849,017	–	–	–	1,849,017
Total comprehensive income for the year	–	–	–	–	1,849,017	5,915,760	–	10,298,393	18,063,170
At 31 December 2009	48,910,000	77,937,474	2,448,014	7	6,843,435	–	1,445,500	24,806,803	162,391,233

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Share capital HK$	Contributed surplus HK$	Share option reserve HK$	Other reserves HK$	Translation reserve HK$	Available-for-sale financial assets revaluation reserve HK$	Warrant reserve HK$	Accumulated profits HK$	Total HK$
At 1 January 2010	48,910,000	77,937,474	2,448,014	7	6,843,435	–	1,445,500	24,806,803	162,391,233
2009 final dividend paid (note 12)	–	(7,354,500)	–	–	–	–	–	–	(7,354,500)
Issue of new shares upon exercise of share options (note 31(a))	120,000	2,084,006	(1,088,006)	–	–	–	–	–	1,116,000
Issue of shares upon exercise of non-listed warrants (note 31(b))	6,162,000	64,606,000	–	–	–	–	(1,445,500)	–	69,322,500
Transactions with owners	6,282,000	59,335,506	(1,088,006)	–	–	–	(1,445,500)	–	63,084,000
Profit for the year	–	–	–	–	–	–	–	13,495,642	13,495,642
Other comprehensive income									
– Changes in fair value of available-for-sale financial assets	–	–	–	–	–	2,058,355	–	–	2,058,355
– Translation of foreign operations	–	–	–	–	1,938,169	–	–	–	1,938,169
Total comprehensive income for the year	–	–	–	–	1,938,169	2,058,355	–	13,495,642	17,492,166
At 31 December 2010	55,192,000	137,272,980	1,360,008	7	8,781,604	2,058,355	–	38,302,445	242,967,399

* The total balances of these equity accounts represents "reserves" in the consolidated statement of financial position.

1. GENERAL INFORMATION

Phoenitron Holdings Limited (formerly known as Cardlink Technology Group Limited) (the "Company") is a public limited company incorporated in the Cayman Islands and its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The principal place of business of the Company is located at Unit 302, Seapower Centre, 73 Lei Muk Road, Kwai Chung, New Territories, Hong Kong.

The principal activities of the Company and its subsidiaries (the "Group") include the manufacturing and sales of smart cards and plastic cards, and the provision of customised smart card application systems.

Pursuant to the special resolution passed at the extraordinary general meeting on 31 May 2010, and with the approval of the Registry of Companies in the Cayman Islands on 10 June 2010 and the approval of the Registrar of Companies in Hong Kong on 9 July 2010, the board of directors announced that the name of Company is changed from "Cardlink Technology Group Limited 鍇聯科技集團有限公司" to "Phoenitron Holdings Limited 品創控股有限公司".

The financial statements for the year ended 31 December 2010 were approved for issued by the board of directors on 21 March 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements on pages 24 to 93 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"). The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the 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 impacts on the Group's financial statements, if any, are disclosed in note 3.

The financial statements have been prepared on the historical cost convention except for certain financial assets which are stated at fair values. The measurement bases are fully described in the accounting policies below.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (notes 2.3) 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 (including special purpose 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 (notes 2.18) unless the subsidiary is held for sale or included in a disposal group. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends are recognised in the Company's profit or loss.

2.4 Associates and jointly controlled entities

Associates are those entities over which the Group is able to exert significant influence, generally accompanying a shareholding of between 20% and 50% of voting rights but which are neither subsidiaries nor investment in a joint venture.

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the venturers.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Associates and jointly controlled entities (Continued)

In consolidated financial statements, an investment in an associate or a jointly controlled entity is initially recognised at cost and subsequently accounted for using the equity method. Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate or jointly controlled entity recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group, plus any costs directly attributable to the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss in the determination of the Group's share of the associate or jointly controlled entity's profit or loss in the period in which the investment is acquired.

Under the equity method, the Group's interest in the associate or jointly controlled entity is carried at cost and adjusted for the post-acquisition changes in the Group's share of the associate's or jointly controlled entity's net assets less any identified impairment loss, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The profit or loss for the period includes the Group's share of the post-acquisition, post-tax results of the associate or jointly controlled entity for the year, including any impairment loss on the investment (note 2.18) in associate or jointly controlled entity recognised for the year.

Unrealised gains on transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associates or jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss. Where the associate or jointly controlled entity uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate's or jointly controlled entity's accounting policies to those of the Group when the associate's or jointly controlled entity's financial statements are used by the Group in applying the equity method.

When the Group's share of losses in an associate or jointly controlled entity equals or exceeds its interest in the associate or the jointly controlled entity, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate or jointly controlled entity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Foreign currencies

The financial statements are presented in Hong Kong dollars (HK$), which is also the functional currency of the Company.

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 carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rates at the reporting date. Income and expenses have been converted into the Hong Kong dollars 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. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 have been treated as assets and liabilities of the foreign operation and translated into Hong Kong dollars at the closing rates. Goodwill arising on the acquisitions of foreign operations before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Property, plant and equipment

Property, plant and equipment are stated at acquisition cost less accumulated depreciation and impairment losses (note 2.18). The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation on property, plant and equipment is provided to write off the costs less their residual values over their estimated useful lives, using the straight-line method, at the rate of 20% per annum.

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

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

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 during the financial period in which they are incurred.

2.7 Intangible assets (other than goodwill)

Acquired intangible assets are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses (note 2.18). Amortisation for intangible assets with finite useful lives is provided on straight-line basis over their estimated useful lives. Amortisation commences when the intangible assets are available for use. Intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Intangible assets (other than goodwill) (Continued)

Expenditure on internally developed products such as costs associated with research activities are expensed in profit or loss as they occur. Costs that are directly attributable to 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 employee costs incurred on development activities along with an appropriate portion of relevant overheads. The costs of development of internally generated software, products or knowhow that meet the above recognition criteria are recognised as intangible assets. They are subject to the same subsequent measurement method as acquired for intangible assets. All other development costs are expensed as incurred.

2.8 Financial assets

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

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Financial assets (Continued)

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

At the end of each reporting period, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

(i) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any provision for impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost. Gain or losses are recognised in profit or loss when the loans and receivables are derecognised or impaired as well as through amortisation process.

(ii) *Financial assets at fair value through profit or loss*

These assets include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

(iii) *Available-for-sale financial assets*

Non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets are classified as available-for-sale financial assets. All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in the fair value, excluding any dividend and interest income which are recognised in profit or loss in accordance with the policies set out in 2.17, is recognised in other comprehensive income and accumulated separately in the available-for-sale financial assets revaluation reserve in equity, except for impairment losses (see policy below) and foreign exchange gains and losses on monetary assets which are recognised in profit or loss, until the financial asset is derecognised, at which time the cumulative gain or loss is reclassified from equity to profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Financial assets (Continued)

(iii) Available-for-sale financial assets (Continued)

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in other comprehensive income.

For available-for-sale investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses (see policy below) at the end of each reporting period subsequent to initial recognition.

At the end of each reporting period, the Group's financial assets 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 a default or delinquency in interest or principal payments;

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Financial assets (Continued)

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

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs. Loans and receivables together with any associated provision are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

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

(ii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in other comprehensive income and accumulated in equity and there is objective evidence that the asset is impaired, an amount is removed from equity and recognised in profit or loss as impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Reversals in respect of investment in equity instruments classified as available-for-sale and stated at fair value are not recognised in profit or loss. The subsequent increase in fair value is recognised directly in other comprehensive income. Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversal of impairment losses in such circumstances are recognised in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Financial assets (Continued)

(iii) Financial assets carried at cost

If there is objective evidence that an impairment loss on an unquoted investment that is not carried at fair value has been incurred, the amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

2.9 Derivative financial instruments

Derivative financial instruments, in individual contracts or separated from hybrid financial instruments, are initially recognised at fair value on the date the derivative contract is entered into and subsequently re-measured at fair value. Derivatives that are not designated as hedging instruments are accounted for as financial assets or financial liabilities at fair value through profit or loss. Gains or losses arising from changes in fair value are taken directly to profit or loss for the year.

2.10 Inventories

Inventories are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses. Cost is determined using the weighted average basis, and in the case of work in progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of overheads.

2.11 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks 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.

2.12 Financial liabilities

The Group's financial liabilities include bank borrowings, trade and other payables and finance leasing liabilities. They are included in the line items in the statement of financial position as borrowings under current or non-current liabilities or trade and other payables.

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 (note 2.21).

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 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 a 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.

Finance lease liabilities

Finance lease liabilities are measured at initial value less the capital element of lease repayments (note 2.14).

Borrowings

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

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

Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

2.13 Financial guarantee contracts

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

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. 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 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)

2.14 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

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.

(i) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligation under finance leases.

Subsequent accounting for assets held under finance lease agreements corresponds to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance charges.

Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(ii) Operating lease charges as the lessee

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Provisions and contingent liabilities

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

2.16 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 equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

2.17 Revenue recognition

Revenue comprises the fair value for the sale of goods and rendering of services, net of rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Sales of goods 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.

Service income and handling fee income are recognised when the relevant services are rendered.

Interest income is recognised on a time-proportion basis using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Impairment of non-financial assets

Intangible assets with indefinite useful lives are test for impairment at least annually. Property, plant and equipment, other intangible assets and interests in subsidiaries, associates and jointly controlled entities are subject to impairment testing whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount 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.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. A reversal of such impairment is credited to profit or loss in the period in which it arises unless that asset is carried at revalued amount, in which case the reversal of impairment loss is accounted for in accordance with the relevant accounting policy for the revalued amount.

2.19 Employee benefits

(i) *Retirement benefits costs*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in the People's Republic of China (the "PRC") are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute specified percentage of its payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Employee benefits (Continued)

(ii) *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 end of the reporting period.

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

2.20 Share-based employee compensation

All share-based payment arrangements granted after 7 November 2002 and had not vested on 1 January 2005 are recognised in the financial statements. The Group operates equity-settled share-based compensation plans for remuneration of its employees.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options 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 contributed surplus. When the vested share options are later forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

2.21 Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Accounting for income taxes

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 the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

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 goodwill or 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, associates and joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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

Changes in deferred tax assets or liabilities are recognised 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Accounting for income taxes (Continued)

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 taxation authority on either:

  (i) the same taxable entity; or

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

2.23 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the chief operating decision marker i.e. executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. In respect of geographical information, revenue is based on shipment destination instructed by customers and non-current assets are where the assets are located.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

3. ADOPTION OF NEW OR REVISED HKFRSs

(a) Adoption of new/revised HKFRSs – effective 1 January 2010

In the current year, the Group has applied for the first time the following revision and amendment to standards and interpretations issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2010:

HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKFRS 3 (Revised)	Business Combinations
HK Interpretation 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause
HKFRSs (Amendments)	Improvements to HKFRSs 2009

Except as explained below, the adoption of these new/revised standards and interpretations has no significant impact on the Group's financial statements.

3. ADOPTION OF NEW OR REVISED HKFRSs (Continued)

(a) Adoption of new/revised HKFRSs – effective 1 January 2010 (Continued)

HK Interpretation 5 – Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

The interpretation is a clarification of an existing standard, HKAS 1 *Presentation of Financial Statements*. It sets out the conclusion reached by the HKICPA that a term loan which contains a clause which gives the lender the unconditional right to demand repayment at any time shall be classified as a current liability in accordance with paragraph 69(d) of HKAS 1 irrespective of the probability that the lender will invoke the clause without cause.

In order to comply with the requirements of HK Interpretation 5, the Group has changed its accounting policy on the classification of term loans that contain a repayment on demand clause. Under the new policy, term loans with clauses which give the lender the unconditional right to call the loan at any time are classified as current liabilities in the statement of financial position. Previously such term loans were classified in accordance with the agreed repayment schedule unless the Group had breached any of the loan covenants set out in the agreement as of the reporting date or otherwise had reason to believe that the lender would invoke its rights under the immediate repayment clause within the foreseeable future.

The new accounting policy has been applied retrospectively with consequential restatement to comparatives for the year ended 31 December 2009. The reclassification has had no effect on reported profit or loss, total comprehensive income or equity for any period presented.

Effect of adoption of HK Interpretation 5 on the consolidated statement of financial position is summarised below:

	As at 31 December 2010 HK$	As at 31 December 2009 HK$	As at 1 January 2009 HK$
Increase/(Decrease) in:			
Current liabilities			
– Borrowings	**6,273,089**	–	1,454,874
Non-current liabilities			
– Borrowings	**(6,273,089)**	–	(1,454,874)

As a result of the above retrospective reclassification, an additional consolidated statement of financial position is presented in accordance with HKAS 1.

3. ADOPTION OF NEW OR REVISED HKFRSs (Continued)

(b) New/Revised HKFRSs that have been issued but are not yet effective

The following new or revised HKFRSs, potentially relevant to the Group's financial statements, have been issued but not yet effective and have not been early adopted by the Group.

HKAS 24 (Revised) Related Party Disclosure

The revised standard is effective for annual periods beginning on or after 1 January 2011. The revised standard clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. This amendment is not expected to have significant impact to the Group.

HKFRS 9 Financial Instruments

The standard is effective for accounting periods beginning on or after 1 January 2013 and addresses the classification and measurement of financial assets. The new standard reduces the number of measurement categories of financial assets and all financial assets will be measured at either amortised cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Fair value gains and losses will be recognised in profit or loss except for those on certain equity investments which will be presented in other comprehensive income. The directors are currently assessing the possible impact of the new standard on the Group's results and financial position in the first year of application.

HK(IFRIC)-Int 19 Extinguishing financial liabilities with equity instruments

The interpretation clarifies the requirements of HKFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after 1 July 2010. The directors are currently assessing the possible impact of this interpretation on the Group's results and financial position in the first year of application.

Annual improvements 2010

The HKICPA issued "Improvements to Hong Kong Financial Reporting Standards 2010". Unless otherwise specified, the amendments contained in the improvements are effective for annual periods beginning on or after 1 January 2011. The directors are currently assessing the possible impact of the amendments contained in the improvements on the Group's results and financial position in the first year of application.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Allowance for bad and doubtful debts

The provision policy for bad and doubtful debts of the Group is based on the evaluation by management of the collectability of the accounts receivable. A considerable amount of estimates and judgment are required in assessing the ultimate realisation of these receivables, including assessing the current creditworthiness and the past collection history of each customer. If the financial conditions of these customers or debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance will be required.

(ii) Allowance for inventories

The management reviews the condition of inventories at the end of each reporting period, and makes allowance for inventories that are identified as obsolete, slow-moving or no longer recoverable or suitable for use in production. The management carries out the inventory review on a product-by-product basis and makes allowances by reference to the latest market prices and current market conditions. A considerable amount of estimates and judgment are required in assessing the net realisable value of inventories.

(iii) Impairment of non-financial assets

The Group assesses impairment of non-financial assets in accordance with HKAS 36 *Impairment of Assets* and follows the guidance of HKAS 39 *Financial Instruments: Recognition and Measurement* in determining whether the non-financial assets are impaired. The Group assesses impairment by evaluating conditions specific to the Group that may lead to impairment of assets. When an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates and assumptions about future events, which are subject to uncertainty and might materially differ from the actual results. In making these key estimates and judgements, the directors take into consideration assumptions that are mainly based on market conditions existing at the reporting date and appropriate market and discount rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group. Future changes in the events and conditions underlying the estimates and assumptions would affect the estimation of recoverable amounts and cause the adjustments of their carrying amounts.

5. SEGMENT INFORMATION

The Group operates in one single business segment i.e. manufacturing and sales of smart cards, plastic cards and smart card application systems. Information reported in these financial statements is identical to those used regularly by the directors for the purpose of resource allocation and assessment of the Group's performance as a whole. Accordingly, no business segment information is presented.

Geographical information

The following table presents the revenue from external customers for the reporting period and the specified non-current assets (i.e. non-current assets excluding financial instruments and tax assets) by geographical locations as at the reporting date.

	Revenue from external customers		Specified non-current assets	
	2010	2009	**2010**	2009
	HK$	HK$	**HK$**	HK$
Asia	**55,418,784**	48,606,522	**–**	–
Europe	**44,344,936**	48,857,876	**–**	–
Hong Kong	**559,493**	546,183	**15,117,379**	21,833,710
PRC, excluding Hong Kong	**52,050,203**	42,750,194	**12,869,135**	14,938,986
Others	**230,960**	749,132	**–**	–
Total	**152,604,376**	141,509,907	**27,986,514**	36,772,696

The Company is an investment holding company incorporated in the Cayman Islands where the Group does not have activities. Since the major operations of the Group are conducted in PRC, PRC is considered as the Group's country of domicile for the disclosure purpose of HKFRS 8 *Operating Segments*.

Information about major customers

Revenue from each of the major customers during the reporting period are as follows:

	2010	2009
	HK$	HK$
Customer A	**44,071,068**	46,454,495
Customer B	**38,407,757**	12,525,724
Customer C	**22,909,637**	25,768,881
Customer D	**14,944,793**	11,588,922

6. REVENUE

The Group's principal activities are disclosed in note 1. Turnover of the Group is the revenue from these activities. Revenue from the Group's principal activities recognised during the reporting period is as follows:

	The Group	
	2010	2009
	HK$	HK$
Sales of smart cards and plastic cards	**152,560,656**	141,488,407
Sales of smart card application systems	**42,870**	19,200
Service and other income	**850**	2,300
	152,604,376	141,509,907

7. OTHER INCOME

	The Group	
	2010	2009
	HK$	HK$
Handling fee income	**254,200**	–
Gain on disposal of property, plant and equipment	**376,297**	31,702
Interest income (note)	**7,094,194**	41,749
Sundry income	**688,361**	428,523
	8,413,052	501,974

Note: Interest income comprises interest income arising from amount due from a jointly-controlled entity (note 25) of HK$974,164, interest income arising from amortisation of available-for-sale financial assets (note 22(a)) of HK$5,762,050, interest income on loan receivable (note 24(b)) of HK$268,000 and bank interest income of HK$89,980 (2009: HK$41,749).

8. FINANCE COSTS

	The Group	
	2010	2009
	HK$	HK$
Interest charges on bank loans wholly repayable within five years *(note)*	**392,567**	99,290
Interest element of finance lease payments	**135,254**	255,297
	527,821	354,587

Note: The analysis shows the finance costs of bank borrowings, including term loans which contain a repayment on demand clause, in accordance with the agreed scheduled repayments dates set out in the respective loan agreements. For the years ended 31 December 2010 and 2009, interest charges on bank borrowings which contain a repayment on demand clause amounted to HK$330,230 and HK$91,322 respectively.

9. PROFIT BEFORE INCOME TAX

	The Group	
	2010	2009
	HK$	HK$
Profit before income tax is arrived at after charging:		
Auditors' remuneration	**417,000**	490,000
Bad debts written off	**37,285**	–
Costs of inventories recognised as an expense	**112,448,983**	94,307,118
Write down of inventories to net realisable value[1]	**382,949**	–
Depreciation		
– Owned assets	**10,954,746**	10,893,649
– Leased assets	**2,661,153**	2,661,153
	13,615,899	13,554,802
Net foreign exchange loss	**1,132,494**	2,626,584
Operating lease charges on land and buildings	**4,083,701**	3,676,094
Research and development costs	**161,634**	149,860
Fair value loss on a derivative[2] *(note 22(a))*	**2,928,235**	–

[1] included in cost of inventories recognised as expenses

[2] included in administrative expenses.

10. INCOME TAX EXPENSE

	The Group	
	2010	2009
	HK$	HK$
Current tax		
Hong Kong Profits Tax:		
Current year	**1,170,937**	1,605,153
Under provision in prior year	**–**	56,847
	1,170,937	1,662,000
PRC Enterprise Income Tax		
Current year	**2,769,171**	3,798,489
Under provision in prior year	**2,763**	1,238,153
	2,771,934	5,036,642
Deferred tax		
Current year *(note 30)*	**–**	(461,657)
Total income tax expense	**3,942,871**	6,236,985

Hong Kong Profits Tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits for the year. Taxation for subsidiaries established and operated in the PRC is calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the PRC.

Pursuant to the income tax rules and regulations of the PRC, the subsidiaries in the PRC are liable to PRC Enterprise Income Tax ("EIT") at the rate of 25% (2009: 25%).

Topwise Technology (SZ) Limited was exempted from EIT for two years ended 31 December 2007 and is granted a 50% reduction in EIT for the period from 1 January 2008 to 31 December 2010.

10. INCOME TAX EXPENSE (Continued)

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

	2010 HK$	2009 HK$
Profit before income tax	17,438,513	16,535,378
Income tax at Hong Kong profits tax rate of 16.5% (2009: 16.5%)	2,877,355	2,728,337
Effect of different tax rates of subsidiaries operating in other jurisdictions	319,335	565,399
Tax effect of non-deductible expenses	2,016,024	1,567,033
Tax effect of non-taxable income	(1,200,139)	(196,870)
Tax effect of tax losses not recognised	94,373	57,728
Utilisation of tax losses previously not recognised	(215,074)	–
Under provision in prior year	2,763	1,295,000
Others	48,234	220,358
Income tax expense	3,942,871	6,236,985

11. PROFIT FOR THE YEAR

Of the consolidated profit for the year, a profit of HK$1,355,310 (2009: loss of HK$1,832,085) has been dealt with in the financial statements of the Company.

12. DIVIDENDS

(a) Dividends attributable to the year

	2010 HK$	2009 HK$
Proposed final dividend of HK0.4 cents (2009: HK1.5 cents) per share	12,142,240	7,336,500

The final dividend proposed after the reporting period has not been recognised. The rate of the final dividend for the year ended 31 December 2010 is determined after taking into account the Share Sub-division and the Open Offer as defined and disclosed in note 40.

12. DIVIDENDS (Continued)

(b) Dividends attributable to the previous financial year, approved and paid during the year

	2010 HK$	2009 HK$
Final dividend in respect of the previous financial year of HK1.5 cents (2009: HK1.5 cents) per share	**7,354,500**	6,871,500

13. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the year of HK$13,495,642 (2009: HK$10,298,393) and the weighted average of 2,513,317,535 ordinary shares in issue during the year, as adjusted for the Share Sub-division as defined and disclosed in note 40(a) as if it had occurred on 1 January 2009 (2009: 2,346,500,000 ordinary shares, restated for the Share Sub-division).

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit for the year of HK$13,495,642 (2009: HK$10,298,393) and the weighted average of 2,664,170,657 ordinary shares (2009: 2,383,278,740 ordinary shares, restated for the Share Sub-division), calculated as follows:

	2010	2009 (Restated)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**2,513,317,535**	2,346,500,000
Effect of deemed issue of shares under the Company's share option scheme	**6,101,260**	5,118,940
Effect of deemed issue of shares on exercise of warrants	**144,751,862**	31,659,800
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**2,664,170,657**	2,383,278,740

14. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	The Group 2010 HK$	2009 HK$
Salaries, wages and other benefits	27,271,959	23,926,363
Contributions to defined contribution plans	2,339,139	1,721,370
	29,611,098	25,647,733

15. DIRECTORS' REMUNERATION

Directors' emoluments for the years ended 31 December 2010 and 2009 are as follows:

2010

Name	Fee HK$	Salaries, allowances and benefits in kind HK$	Retirement scheme contributions HK$	Total HK$
Executive Directors:				
Lily Wu	–	280,034	12,000	292,034
Leung Quan Yue, Michelle	–	120,000	6,000	126,000
Chang Wei Wen	–	1,039,000	21,000	1,060,000
	–	1,439,034	39,000	1,478,034
Independent Non-executive Directors:				
Wong Ka Wai, Jeanne	60,000	–	–	60,000
Leung Ka Kui, Johnny	60,000	–	–	60,000
Chan Siu Wing, Raymond	60,000	–	–	60,000
	180,000	–	–	180,000
	180,000	1,439,034	39,000	1,658,034

15. DIRECTORS' REMUNERATION (Continued)

2009

Name	Fee HK$	Salaries, allowances and benefits in kind HK$	Retirement scheme contributions HK$	Total HK$
Executive Directors:				
Lily Wu	–	279,371	12,000	291,371
Leung Quan Yue, Michelle	–	120,000	6,000	126,000
Chang Wei Wen	–	573,333	21,000	594,333
	–	972,704	39,000	1,011,704
Independent Non-executive Directors:				
Wong Ka Wai, Jeanne	60,000	–	–	60,000
Leung Ka Kui, Johnny	60,000	–	–	60,000
Chan Siu Wing, Raymond	60,000	–	–	60,000
	180,000	–	–	180,000
	180,000	972,704	39,000	1,191,704

No emoluments were paid by the Group to any directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2009: nil).

There was no arrangements under which a director waived or agreed to waive any emoluments during the year (2009: nil).

16. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals include one (2009: two) director(s) whose remuneration is disclosed in note 15. The aggregate emoluments of the remaining four (2009: three) highest paid individuals are as follows:

	2010 HK$	2009 HK$
Salaries and allowances	2,372,988	2,406,751
Contributions to retirement scheme	48,000	28,855
	2,420,988	2,435,606

The emoluments fell within the following bands:

	Number of individuals	
	2010	2009
Emolument bands		
Nil – HK$1,000,000	4	2
HK$1,000,001 – HK$1,500,000	0	1

17. RETIREMENT SCHEMES

Under the Mandatory Provident Fund Schemes Ordinance regulated by the Mandatory Provident Fund Schemes Authority in Hong Kong, with effect from 1 December 2000, the Group participates in a Mandatory Provident Fund retirement benefits scheme (the "MPF scheme") operated by an approved trustee in Hong Kong and makes contributions for its eligible employees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the scheme vest immediately.

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefits scheme being operated by the local PRC government. The subsidiaries are required to contribute specified percentage of the average basic salary to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions.

During the reporting period, the aggregate amount of employer's contribution made by the Group is HK$2,339,139 (2009: HK$1,721,370). No forfeited contribution is available for offset against existing contributions during the reporting period (2009: nil).

18. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Printing and testing equipment HK$	Office equipment HK$	Furniture and fixtures HK$	Leasehold improvement HK$	Motor vehicles HK$	Total HK$
At 31 December 2008						
Cost	76,387,282	2,456,066	2,710,152	3,877,871	1,296,310	86,727,681
Accumulated depreciation	(39,732,426)	(1,460,052)	(2,250,375)	(2,527,846)	(577,389)	(46,548,088)
Net book amount	36,654,856	996,014	459,777	1,350,025	718,921	40,179,593
Year ended 31 December 2009						
Opening net book amount	36,654,856	996,014	459,777	1,350,025	718,921	40,179,593
Additions	7,526,875	216,189	247,098	–	707,628	8,697,790
Disposals	–	(3,095)	(4,650)	–	(37,159)	(44,904)
Depreciation	(12,241,795)	(367,727)	(223,397)	(455,039)	(266,844)	(13,554,802)
Exchange differences	295,629	16,573	9,313	27,889	10,479	359,883
Closing net book amount	32,235,565	857,954	488,141	922,875	1,133,025	35,637,560
At 31 December 2009						
Cost	84,384,068	2,588,327	2,924,934	3,953,814	1,898,230	95,749,373
Accumulated depreciation	(52,148,503)	(1,730,373)	(2,436,793)	(3,030,939)	(765,205)	(60,111,813)
Net book amount	32,235,565	857,954	488,141	922,875	1,133,025	35,637,560
Year ended 31 December 2010						
Opening net book amount	32,235,565	857,954	488,141	922,875	1,133,025	35,637,560
Additions	2,721,033	127,139	584,244	176,625	344,242	3,953,283
Disposals	–	–	–	–	(31,852)	(31,852)
Depreciation	(12,256,378)	(338,866)	(261,024)	(404,639)	(354,992)	(13,615,899)
Exchange differences	392,209	18,626	26,293	27,439	23,719	488,286
Closing net book amount	23,092,429	664,853	837,654	722,300	1,114,142	26,431,378
At 31 December 2010						
Cost	87,000,593	2,774,418	3,419,291	4,257,289	2,031,260	99,482,851
Accumulated depreciation	(63,908,164)	(2,109,565)	(2,581,637)	(3,534,989)	(917,118)	(73,051,473)
Net book amount	23,092,429	664,853	837,654	722,300	1,114,142	26,431,378

Printing and testing equipment with net book value of HK$6,567,902 (2009: HK$9,229,054) are held under finance leases.

Certain plant and machinery are pledged for the Group's bank facilities as further detailed in note 35.

19. INTANGIBLE ASSETS – GROUP

	China driving licence HK$
Year ended 31 December 2010	
Opening net carrying amount	–
Additions	420,000
Closing net carrying amount	420,000
At 31 December 2010	
Cost	420,000
Accumulated impairment	–
Net carrying amount	420,000

The intangible asset represents the acquisition cost of a driving licence in China. The China driving licence is considered to have an indefinite economic life as there is no foreseeable limit on the period of time over which the driving licence is expected to generate economic benefit to the Group and the licence is renewable at minimal cost. Accordingly it is not amortised.

20. INTERESTS IN SUBSIDIARIES – COMPANY

	2010 HK$	2009 HK$
Unlisted shares, at cost	26,954,990	26,954,990
Amounts due from subsidiaries	84,215,452	109,460,178
Less: Provision for impairment	(3,382,195)	(3,818,932)
	107,788,247	132,596,236

The amounts due from the subsidiaries are unsecured, interest-free and no fixed term of repayment. In the opinion of the directors, the amounts due from the subsidiaries would not be recoverable within twelve months from the reporting date.

20. INTERESTS IN SUBSIDIARIES – COMPANY (Continued)

Details of the Company's subsidiaries, which are all wholly-owned, are as follows:

Name of company	Place of incorporation/ establishment and operation and kind of legal entity	Particulars of issued and fully paid share capital/paid-up registered capital	Principal activities
Apex Limited	Hong Kong, limited liability company	HK$10,000 ordinary share	Inactive
Beijing Tecsun Venus Technology Limited	PRC, wholly-foreign-owned enterprises	US$1,781,842 registered capital	Smart card and plastic card manufacturing and sales
Billion Apex Limited	The British Virgin Islands ("BVI"), limited liability company	US$1 ordinary share	Investment holding
Cardlink Technology (HK) Limited	Hong Kong, limited liability company	HK$10,000 ordinary share	Investment holding
DG Toplink Electronics Co. Limited	PRC, wholly-foreign-owned enterprises	US$1,274,000 registered capital	Smart card and plastic card manufacturing and sales
Fine Wise Holdings Limited	BVI, limited liability company	US$10,000 ordinary share	Investment holding
Intercard Limited	Hong Kong, limited liability company	HK$10,666,667 ordinary share	Smart card and plastic card manufacturing, system development and provision of research and development, marketing and sales
Manibo Limited	Republic of Mauritius, limited liability company	US$1 ordinary share	Investment holding
PMIS Limited	Hong Kong, limited liability company	HK$10,000 ordinary share	Development and provision of smart card application systems
Topwise Technology (SZ) Limited	PRC, wholly-foreign-owned enterprises	HK$4,000,000 registered capital	Smart card and plastic card manufacturing and sales
Ultra Force Holdings Limited	BVI, limited liability company	US$1 ordinary share	Investment holding
Waystech Group Limited	BVI, limited liability company	US$10,000 ordinary share	Investment holding
Waywise Step International Limited	BVI, limited liability company	US$100 ordinary share	Investment holding
World Praise International Limited	BVI, limited liability company	US$1 ordinary share	Investment holding

Other than Waystech Group Limited, which is held directly by the Company, all subsidiaries are held indirectly.

21. INTEREST IN AN ASSOCIATE – GROUP

	The Group 2010 HK$	2009 HK$
Share of net assets	**1,135,136**	1,135,136

Details of the Group's associate are as follows:

Name of company	Place of establishment	Particulars of paid-up registered capital	Group's effective interest	Principal activities
力欣房地產經紀(上海)有限公司	PRC	Renminbi ("RMB") 5,000,000	20%	Real estate advisory

The associate has a reporting date of 31 December. The financial information of the associate extracted from its management accounts is as follows:

	2010 HK$	2009 HK$
Assets	**6,676,900**	6,392,924
Liabilities	**(234,305)**	(616,510)
Revenue	**3,929,412**	3,629,187
Net profit	**460,919**	861,576

The Group has not incurred any contingent liabilities or other commitments relating to its investment in this associate.

22. LONG-TERM FINANCIAL ASSETS – GROUP

	2010 HK$	2009 HK$ (Re-presented)	2008 HK$ (Re-presented)
Investment in Hota (USA) (note (a))	81,521,972	76,629,802	25,303,623
Investment in Guangzhou Tecsun (note (b))	2,158,058	2,158,058	2,158,058
	83,680,030	78,787,860	27,461,681

Notes:

(a) Hota (USA) Holding Corp. ("Hota (USA)") is an investment holding company incorporated in the United States of America. As at 31 December 2010, Hota (USA) had equity holdings in the entire issued share capital in a PRC entity which is principally engaged in the business of disintegration of used automobiles and sale of metal derived from automobiles (the "Resources Recycling Business"). As at 31 December 2010, the Group is interested in 83.33% (2009: 74.07%) of the Series A preferred shares of Hota (USA), which are entitled to receive 5% non-cumulative dividends and redeemable at 100% of the respective principal amount in the 3rd quarter of 2012, and 43.53% of the common shares of Hota (USA). Each of the Series A preferred shares entitles the holder thereof to convert the same into one common share of Hota (USA) and the holders of the Series A preferred shares shall be entitled to have one vote for each common share of Hota (USA) into which each Series A preferred share is convertible on an as-converted basis, and shall vote together with the holders of the common shares. As at 31 December 2010, the Group is interested in 62.19% (2009: 62.22%) of the entire share capital of Hota (USA) as enlarged by the allotment and issue of the common shares upon exercise of the conversion rights attaching to the entire Series A preferred shares in issue and the board of Hota (USA) comprised of 4 directors, 2 of whom were appointed by the Group. The directors regard Hota (USA) as a jointly-controlled entity of the Group.

The investment in Hota (USA) is accounted for as an available-for-sale financial asset which is stated at fair value of HK$64,889,126 as at 31 December 2010, and a derivative component arises from the conversion right which is stated at fair value of HK$16,632,846 as at 31 December 2010 (2009: HK$19,561,081). In addition, the Group's share of Hota (USA)'s net losses during the year amounted to HK$346,924 (2009: HK$1,161,881).

The investment in Hota (USA) as at 31 December 2009 was presented as "interest in a jointly-controlled entity" based on the Group's involvement in the operation of Hota (USA). However, the investment is classified as a "long-term financial asset" in order to better reflect the economic interests in Hota (USA) as entitled by the Group. As a result of this reclassification, the investment as at 31 December 2009 amounting to HK$76,629,802 which was classified as "interest in a jointly-controlled entity" is re-presented as a "long-term financial asset" and there is no financial impact arising from the reclassification.

22. LONG-TERM FINANCIAL ASSETS – GROUP (Continued)

Notes: (Continued)

(a) (Continued)

The Resources Recycling Business has not yet been put into operation during the reporting period. In the opinion of the directors, the Resources Recycling Business would commence in 2011. The financial information about Hota (USA), extracted from the management accounts of Hota (USA), is as follows:

	2010 HK$	2009 HK$
Assets and liabilities:		
Non-current assets	145,715,071	72,841,392
Current assets	80,225,227	33,980,396
Current liabilities	(150,205,500)	(12,660,345)
Non-current liabilities	(111,551,782)	(104,692,500)
Net liabilities	(35,816,984)	(10,531,057)
Result:		
Income	4,171,630	65,242
Expenses	(13,735,339)	(1,932,617)
Net losses	(9,563,709)	(1,867,375)

22. LONG-TERM FINANCIAL ASSETS – GROUP (Continued)

Notes: (Continued)

(b) The investment represents 11.33% equity interest in Guangzhou Tecsun Golden Card Ltd. (廣州德生金卡有限公司) ("Guangzhou Tecsun"), a PRC entity with paid up registered capital of RMB41,700,000

	2010 HK$	2009 HK$
Unlisted equity securities, at cost	4,458,058	4,458,058
Less: Provision for impairment	(2,300,000)	(2,300,000)
	2,158,058	2,158,058

The investment in Guangzhou Tecsun is classified as an available-for-sale financial asset and is measured at cost less impairment losses as it does not have quoted market price in active markets and the range of reasonable fair value estimates is so significant that the directors are of the opinion that its fair value cannot be measured reliably. The Group plans to hold the investment for the foreseeable future.

23. INVENTORIES – GROUP

	2010 HK$	2009 HK$
Raw materials	**2,338,771**	2,878,171
Work-in-progress	**2,242,881**	1,711,626
Finished goods	**1,698,368**	2,240,046
	6,280,020	6,829,843

24. TRADE AND OTHER RECEIVABLES – GROUP AND COMPANY

	The Group		The Company	
	2010 HK$	2009 HK$	**2010 HK$**	2009 HK$
Trade receivables – From third parties *(note (a))*	**47,247,846**	35,896,851	**–**	–
Loan receivable *(note (b))*	**5,268,493**	–	**5,268,493**	–
Other receivables, deposits and prepayment	**5,005,650**	5,586,661	**465,529**	451,914
	57,521,989	41,483,512	**5,734,022**	451,914

Notes:

(a) The credit term granted by the Group to its trade customers normally ranges from 30 days to 90 days. Based on the invoice dates, the ageing analysis of the Group's trade receivables is as follows:

	2010 HK$	2009 HK$
1 – 30 days	**19,687,499**	13,304,669
31 – 90 days	**20,995,587**	20,375,613
Over 90 days	**6,564,760**	2,216,569
	47,247,846	35,896,851

24. TRADE AND OTHER RECEIVABLES – GROUP AND COMPANY (Continued)

Notes: (Continued)

(a) (Continued)

The ageing analysis of trade receivables that are past due but not impaired, based on due date, is as follows:

	2010 HK$	2009 HK$
Neither past due nor impaired	26,879,419	23,976,580
1 – 30 days past due	10,223,260	7,825,085
31 – 90 days past due	6,955,878	2,505,379
Over 90 days past due	3,189,289	1,589,807
	47,247,846	35,896,851

Trade receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default. Trade receivables that were past due but not impaired related to a number of customers that have a good track record with the Group. Based on past experience, the management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

(b) The loan is due from a third party company which is unsecured, interest-bearing at 10% per annum and repayable on demand.

The directors of the Group consider that the fair values of trade and other receivables which are expected to be recovered within one year are not materially different from their carrying amounts because these balances have short maturity periods on their inception.

25. AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY – GROUP AND COMPANY

Except for a balance due from the jointly controlled entity with carrying amount of HK$65,875,000 (the "Loan") which is unsecured, repayable within one year and interest-bearing at 10% per annum, the remaining balance due is unsecured, interest-free and repayable on demand.

During the reporting period, the Group entered into a non-legally binding memorandum of understanding with the jointly controlled entity in relation to a possible capitalisation for the Loan, in case the jointly controlled entity failed to repay the Loan together with any interest accrued on due date. As at 31 December 2010 and update to the date of this report, no formal agreement has been signed in relation to the Loan capitalisation.

26. PLEDGED BANK DEPOSITS

Pledged bank deposits earn interest ranging from 0.02% to 0.03% (2009: 0.01%) per annum and have a maturity of one year (2009: one year). The deposits are pledged to secure bank borrowings (note 35).

27. CASH AND CASH EQUIVALENTS – GROUP AND COMPANY

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$	HK$	**HK$**	HK$
Cash at bank and in hand	**39,912,851**	32,949,818	**17,573,472**	842,617
Short-term bank deposits	**7,427,913**	–	**–**	–
Cash and cash equivalents	**47,340,764**	32,949,818	**17,573,472**	842,617
Denominated in:				
RMB	**16,619,373**	10,506,657	**–**	–
Hong Kong Dollars	**21,252,690**	6,504,227	**17,573,472**	842,617
US Dollars	**9,455,601**	15,938,934	**–**	–
Other currencies	**13,100**	–	**–**	–
	47,340,764	32,949,818	**17,573,472**	842,617

The short-term bank deposits have maturity periods range from 3 months to 12 months (2009: one month) and earn interest ranging from 0.36% to 1.91% per annum.

The directors considered that the fair values of cash and cash equivalents are not materially different from their carrying amounts because of the short maturity period on their inception.

As at the reporting date, cash denominated in RMB amounted to HK$16,619,373 (2009: HK$10,506,657). RMB is not a freely convertible currency. Under the Mainland China'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 banks that are authorised to conduct foreign exchange business.

28. TRADE AND OTHER PAYABLES – GROUP AND COMPANY

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$	HK$	**HK$**	HK$
Trade payables – To third parties	**18,717,582**	20,511,904	**–**	–
Other payables and accrual	**7,815,347**	5,705,851	**805,615**	1,052,524
	26,532,929	26,217,755	**805,615**	1,052,524

28. TRADE AND OTHER PAYABLES – GROUP AND COMPANY (Continued)

Credit period granted by suppliers normally range from 30 days to 90 days. Based on the invoice dates, the ageing analysis of the trade payables were as follows:

	The Group	
	2010	2009
	HK$	HK$
1 – 30 days	**12,852,597**	6,025,760
31 – 60 days	**4,824,956**	6,288,049
61 – 90 days	**255,244**	4,767,120
Over 90 days	**784,785**	3,430,975
	18,717,582	20,511,904

Due to short maturity period, the carrying values of the Group's trade and other payables are considered to be reasonable approximation of their fair values.

29. BORROWINGS – GROUP

	The Group		
	At 31 December	At 31 December	At 1 January
	2010	2009	2009
	HK$	HK$	HK$
			(Restated)
Current liabilities			
Secured bank loans *(note (a))*	**18,661,304**	1,454,874	8,274,604
Obligations under finance leases *(note (b))*	**2,295,547**	4,066,775	3,946,730
	20,956,851	5,521,649	12,221,334
Non-current liabilities			
Secured bank loans *(note (a))*	**–**	–	–
Obligations under finance leases *(note (b))*	**–**	2,295,545	6,362,321
	–	2,295,545	6,362,321
Total borrowings	**20,956,851**	7,817,194	18,583,655

29. BORROWINGS – GROUP (Continued)

Notes:

(a) The analysis of the carrying amounts of bank loans is as follows:

	The Group		
	At 31 December 2010 HK$	At 31 December 2009 HK$	At 1 January 2009 HK$ (Restated)
Current liabilities			
Portion of term loans due for repayment within one year	**12,388,215**	1,454,874	6,819,730
Portion of term loans due for repayment after one year which contain a repayment on demand clause	**6,273,089**	–	1,454,874
Total bank loans	**18,661,304**	1,454,874	8,274,604

The analysis of bank loans by scheduled repayment is as follows:

	The Group		
	At 31 December 2010 HK$	At 31 December 2009 HK$	At 1 January 2009 HK$
Current liabilities			
Portion of term loans due for repayment within one year	**12,388,215**	1,454,874	6,819,730
Non-current liabilities			
Portion of term loans due for repayment after one year *(note)*			
In the second year	**5,076,324**	–	1,454,874
In the third to fifth year	**1,196,765**	–	–
	6,273,089	–	1,454,874
Total bank loans	**18,661,304**	1,454,874	8,274,604

29. BORROWINGS – GROUP (Continued)

Notes: (Continued)

(a) (Continued)

Notes:

The amounts due are based on the scheduled repayment dates set out in the loan agreements and ignore the effect of any repayment on demand clause.

The bank loans at the end of the reporting period were denominated in HK$ and were arranged at floating effective rate of 3.00% (2009: 4.01%) per annum. The interest-bearing bank loans, including the term loans repayable on demand, are carried at amortised cost. None of the portion of term loans due for repayment after one year which contain a repayment on demand clause and that is classified as a current liability is expected to be settled within one year.

The above bank loans were secured by bank deposits and certain plant and machinery as disclosed in note 35, and corporate guarantee provided by the Company and its subsidiaries as disclosed in note 37.

(b) The analysis of the obligations under finance leases is as follows:

	The Group			
	Total minimum lease payments		Present value of minimum lease payments	
	2010	2009	**2010**	2009
	HK$	HK$	**HK$**	HK$
Amount payable:				
Within one year	**2,317,577**	4,202,029	**2,295,547**	4,066,775
In the second year	**–**	2,317,559	**–**	2,295,545
	2,317,577	6,519,588	**2,295,547**	6,362,320
Future finance charges	**(22,030)**	(157,268)	**–**	–
Finance lease obligations	**2,295,547**	6,362,320	**2,295,547**	6,362,320

The Group has entered into finance leases for certain of plant and machinery. The lease period is three years in general and the average effective borrowing rate is 3.00% (2009: 3.12%) per annum. All leases are repayable in fixed monthly principal installments plus interest and no arrangements have been entered into for contingent rental payments. The above leases were secured by corporate guarantees provided by the Company and its subsidiaries.

30. DEFERRED TAX – GROUP AND COMPANY

The movement of the Group's deferred tax liabilities which arise from depreciation allowance in excess of accounting depreciation is as follows:

	The Group	
	2010	2009
	HK$	HK$
At 1 January	**4,707**	466,364
Credited to profit or loss *(note 10)*	**–**	(461,657)
At 31 December	**4,707**	4,707

The Group has not recognised deferred tax assets in respect of tax losses of HK$3,797,222 (2009: HK$4,528,746). The tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised because it is not probable that future taxable profit will be available against which the Group can utilise benefits therefrom.

Deferred tax liabilities of HK$675,597 (2009: HK685,683) have not been established for the withholding tax that would be payable on the unremitted earnings of certain PRC subsidiaries because the Company controls the dividend policy of these subsidiaries and it is not probable that these subsidiaries will distribute such earnings in foreseeable future. Such unremitted earnings amounted to approximately HK$8,980,400 at 31 December 2010 (2009: HK$8,525,789).

The Company

As at 31 December 2010, the Company had no significant unprovided deferred taxation (2009: nil).

31. SHARE CAPITAL

	2010 Number of shares	2010 HK$	2009 Number of shares	2009 HK$
Authorised:				
Ordinary shares of HK$0.10 each				
At 1 January and 31 December	**1,000,000,000**	**100,000,000**	1,000,000,000	100,000,000

	2010 Number of shares	2010 HK$	2009 Number of shares	2009 HK$
Issued and fully paid:				
Ordinary shares of HK$0.10 each				
At 1 January	**489,100,000**	**48,910,000**	458,100,000	45,810,000
Issue of shares upon placement	**–**	**–**	30,000,000	3,000,000
Issue of shares upon exercise of share options *(note (a))*	**1,200,000**	**120,000**	1,000,000	100,000
Issue of shares upon exercise of non-listed warrants *(note (b))*	**61,620,000**	**6,162,000**	–	–
At 31 December	**551,920,000**	**55,192,000**	489,100,000	48,910,000

Notes:

(a) During the year, 1,200,000 options were exercised at the exercise price of HK$0.93 per share, resulting in the issue of 1,200,000 new shares of HK$0.1 each and the transfer of a sum of HK$1,088,006 from share option reserve to contributed surplus.

(b) During the year, all the non-listed warrants were exercised at the subscription price of HK$1.125 per share, resulting in the issue of 61,620,000 new shares of HK$0.1 each and the transfer of a sum of HK$1,445,500 from warrant reserve to contributed surplus.

The share capital of the Company comprises only of fully paid ordinary shares with a par value of HK$55,192,000. All shares are equally eligible to receive dividends and to the repayment of capital and each of the shares is entitled to one vote at shareholders' meeting of the Company.

32. SHARE OPTION SCHEME

Pursuant to the resolution passed by the shareholders of the Company at the extraordinary general meeting of the Company dated 8 January 2008, a new share option scheme, (the "New Share Option Scheme") was approved and adopted. The summary of the terms of the share option scheme is set out below.

The purpose of the New Share Option Scheme is to recognise and motivate the contribution of employees to the growth of the Group. Under the New Share Option Scheme, the board of directors which shall include the independent non-executive directors may, at its discretion, invite any employees including any executive directors of any companies in the Group to take up options at HK$1.00 to subscribe for shares in the Company at the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a trading day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediate preceding the date of grant; and (iii) the nominal value of a share.

The total number of shares which may be issued upon exercise of all options which may be granted under the New Share Option Scheme and any other share option schemes of the Company shall not exceed 10% of the total number of shares in issue as at the date of approval of the New Share Option Scheme.

The option period in respect of any particular option shall be determined by the board of directors, provided that no option shall be exercisable after ten years from the date of its grant.

The share options are fully vested at the date of grant. All share-based employee compensation will be settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options other than by issuing the Company's ordinary shares.

On 17 November 2008, options to subscribe for an aggregate of 3,700,000 shares of the Company at an exercise price of HK$0.93 per share were granted by the Company to certain directors and employees of the Group.

32. SHARE OPTION SCHEME (Continued)

The movements of the share options during the year and in prior year are as follows:

Name of participant	At 1 January 2010	Exercised during the year	At 31 December 2010	Date of grant	Exercisable period	Exercise price HK$
Directors						
Lily Wu	1,000,000	–	1,000,000	17 November 2008	17 November 2008 to 16 November 2018	0.93
Chang Wei Wen	800,000	(800,000)	–	17 November 2008	17 November 2008 to 16 November 2018	0.93
Leung Quan Yue, Michelle	500,000	–	500,000	17 November 2008	17 November 2008 to 16 November 2018	0.93
Other employees						
In aggregate	400,000	(400,000)	–	17 November 2008	17 November 2008 to 16 November 2018	0.93
	2,700,000	(1,200,000)	1,500,000			
Weighted average exercise price	0.93	0.93	0.93			

32. SHARE OPTION SCHEME (Continued)

Name of participant	At 1 January 2009	Exercised during the year	At 31 December 2009	Date of grant	Exercisable period	Exercise price HK$
Directors						
Lily Wu	1,000,000	–	1,000,000	17 November 2008	17 November 2008 to 16 November 2018	0.93
Ho Lut Wa, Anton	1,000,000	(1,000,000)	–	17 November 2008	17 November 2008 to 16 November 2018	0.93
Chang Wei Wen	800,000	–	800,000	17 November 2008	17 November 2008 to 16 November 2018	0.93
Leung Quan Yue, Michelle	500,000	–	500,000	17 November 2008	17 November 2008 to 16 November 2018	0.93
Other employees						
In aggregate	400,000	–	400,000	17 November 2008	17 November 2008 to 16 November 2018	0.93
	3,700,000	(1,000,000)	2,700,000			
Weighted average exercise price	0.93	0.93	0.93			

The weighted average share price of the Company at the date of exercise for share options exercised during the year was HK$2.89 (2009: HK$1.28).

The options outstanding at 31 December 2010 had a weighted average remaining contractual life of 7.95 years (2009: 8.95 years).

At the end of the reporting period, the Company had 1,500,000 share options outstanding under the New Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 1,500,000 ordinary shares of the Company and additional share capital of HK$150,000 and contributed surplus of HK$1,245,000.

33. RESERVES – GROUP AND COMPANY

The Group

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity.

Contributed surplus of the Group originally represents the difference between the nominal value of the share capital and share premium of the subsidiaries acquired pursuant to a group reorganisation conducted in previous years over the nominal value of the share capital of the Company issued in exchange therefore, less share issue expenses. Subsequent dividend distribution and issue of new shares are dealt with in this reserve.

Translation reserve of the Group represents the exchange differences on translation of the financial statements of the PRC subsidiaries.

Share option reserve is set up in accordance with the accounting policy set out in note 2.20.

Certain portion of the retained earnings of the Company's PRC subsidiaries is restricted for distribution. Under the relevant PRC laws and regulations, the PRC subsidiaries are required to appropriate at least 10% of profit after tax to general reserve fund until reaching 50% of the registered capital. The general reserve fund can be applied to set-off accumulated losses and to convert into paid-in capital. Such restricted profits included in the Group's accumulated profits amounted to approximately HK$5,166,081 (2009: HK$3,955,451).

33. RESERVES – GROUP AND COMPANY (Continued)

The Company

	Contributed surplus HK$	Share option reserve HK$	Other reserves HK$	Warrant reserve HK$	Accumulated losses HK$	Total HK$
At 1 January 2009	61,816,479	2,448,014	7	–	(6,275,657)	57,988,843
Loss for the year	–	–	–	–	(1,832,085)	(1,832,085)
2008 final dividend paid	(6,871,500)	–	–	–	–	(6,871,500)
Issue of new shares on placement	34,500,000	–	–	–	–	34,500,000
Issue of new shares upon exercise of share options	830,000	–	–	–	–	830,000
Share issue expenses	(2,132,515)	–	–	–	–	(2,132,515)
Issue of non-listed warrants	–	–	–	1,445,500	–	1,445,500
At 31 December 2009 and 1 January 2010	**88,142,464**	**2,448,014**	**7**	**1,445,500**	**(8,107,742)**	**83,928,243**
Profit for the year	–	–	–	–	1,355,310	1,355,310
2009 final dividend paid	(7,354,500)	–	–	–	–	(7,354,500)
Issue of new shares upon exercise of share options (note 31(a))	2,084,006	(1,088,006)	–	–	–	996,000
Issue of share upon exercise of non-listed warrants (note 31(b))	64,606,000	–	–	(1,445,500)	–	63,160,500
At 31 December 2010	**147,477,970**	**1,360,008**	**7**	**–**	**(6,752,432)**	**142,085,553**

Contributed surplus of the Company originally represents the difference between the combined net assets value of the subsidiaries acquired pursuant to a group reorganisation conducted in previous years over the nominal value of the share capital of the Company issued in exchange therefore less share issue expenses. Subsequent dividend distribution and issue of new shares are dealt with in this reserve.

34. RELATED PARTY TRANSACTIONS

In addition to those disclosed elsewhere in the financial statements, the following transactions were carried out by the Group with related parties.

(a) Transactions with related companies

Related party relationship	Type of transaction	Transaction amount 2010 HK$	2009 HK$
Jointly controlled entity	Interest income earned	**974,164**	–
	Handling fee income earned	**254,200**	–

(b) Compensation of key management personnel

Members of key management during the year comprised only the executive directors whose remunerations are set out in note 15.

35. PLEDGE OF ASSETS

The carrying amounts of the following assets have been pledged to secure general banking facilities granted to the Group:

	The Group 2010 HK$	2009 HK$
Plant and machinery *(note 18)*	**6,518,811**	4,885,374
Pledged deposits *(note 26)*	**927,117**	926,972
	7,445,928	5,812,346

36. COMMITMENTS – GROUP AND COMPANY

Capital commitments

	The Group 2010 HK$	2009 HK$
Property, plant and equipment		
Contracted but not provided for	**346,403**	591,364

At the reporting date, the Company did not have any significant capital commitments.

Operating lease commitments

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

	The Group 2010 HK$	2009 HK$
Within one year	**2,788,916**	2,435,681
In the second to fifth year, inclusive	**1,070,400**	917,831
	3,859,316	3,353,512

The Group leases a number of properties under operating leases. The leases run for an initial period of one to two years, with an option to renew the lease and renegotiate the terms at the expiry date or at dates as mutually agreed between the Group and respective landlords/lessors. None of the leases include contingent rentals.

At the reporting date, the Company did not have any significant operating lease commitments.

37. FINANCIAL GUARANTEE CONTRACTS

The Company and certain subsidiaries have provided guarantees of repayment in respect of the facilities for bank loans and finance leases of the Group amounting to HK$56,406,776 (2009: HK$36,837,280) of which HK$20,956,851 (2009: HK$7,817,194) was utilised and outstanding as at 31 December 2010. In the opinion of the directors, the financial impact arising from providing the above financial guarantees is insignificant and accordingly, they are not accounted for in these financial statements.

38. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including currency risk, interest rate risk and equity price risk). The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

In light of the simplicity of the operations, the risk management of the Group is carried out by the board of directors (the "Board") directly. The Board discusses both formally and informally principles for overall risk management, as well as policies covering specific areas, such as foreign currency risk, interest rate risk, credit risk, liquidity risk and use of financial instruments.

38.1 Categories of financial assets and liabilities

The carrying amounts presented in the statements of financial position relate to the following categories of financial assets and financial liabilities.

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$	HK$	**HK$**	HK$
Financial assets				
Loans and receivables				
– Trade and other receivables	**53,826,576**	37,189,100	**5,490,011**	–
– Pledged deposits	**927,117**	926,972	**–**	–
– Bank balances and cash	**47,340,764**	32,949,818	**17,573,472**	842,617
– Due from a jointly controlled entity	**67,103,364**	–	**67,103,364**	–
– Due from subsidiaries	**–**	–	**80,833,257**	105,641,246
Available-for-sale financial assets				
– Investments in Hota (USA) and Guangzhou Tecsun	**67,047,184**	59,226,779	**–**	–
Financial assets at fair value through profit or loss				
– Derivative component of investment in Hota (USA)	**16,632,846**	19,561,081	**–**	–
	252,877,851	149,853,750	**171,000,104**	106,483,863
Financial liabilities				
Financial liabilities at amortised cost				
– Trade and other payables	**24,916,594**	25,000,880	**805,615**	1,052,524
– Borrowings	**20,956,851**	7,817,194	**–**	–
	45,873,445	32,818,074	**805,615**	1,052,524

38. FINANCIAL RISK MANAGEMENT (Continued)

38.2 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 credit risk is primarily attributable to cash and cash equivalents, deposits with banks and trade and other receivables with a maximum exposure equal to the carrying amounts of these instruments. The Company is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in note 37.

Cash and cash equivalents and deposits with banks are normally placed at financial institutions that have sound credit rating and the Group considers the credit risk to be insignificant.

Management has a credit policy in place for approving the credit limits and the exposures to credit risk are monitored such that any outstanding debtors are reviewed and followed up on an ongoing basis. Credit evaluations are performed on customers requiring a credit over a certain amount including assessing the customer's creditworthiness and financial standing.

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

The general credit terms allowed range from 30 to 90 days. As at the end of the reporting period, the Group does not hold any collateral from customers and the Group has a certain concentration of credit risk as 23% (2009: 23%) of the total trade and other receivables was due from the Group's largest customer and 73% from the five largest customers of the Group as at 31 December 2010 (2009: 68%).

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 24.

38.3 Liquidity risk

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

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants by reviewing each operating entity's cash flow forecast, to ensure that the Group maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The liquidity policy has been followed by the Group since prior years and is considered to have been effective in managing liquidity risks.

38. FINANCIAL RISK MANAGEMENT (Continued)

38.3 Liquidity risk (Continued)

The table below analyses the Group's borrowings based on undiscounted cash flows (including interest payments computed using contractual rates or current rates at the reporting date) and the earliest date the Group can be required to pay. Specifically, for term loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for other bank borrowings is prepared based on the scheduled repayment dates.

	On demand HK$	Less than 3 months HK$	Between 3 and 6 months HK$	Between 6 and 12 months HK$	Between 1 and 2 years HK$
At 31 December 2010					
Bank loans subject to a repayment on demand clause	6,273,089	–	–	–	–
Other bank loans	–	12,481,127	–	–	–
Obligations under finance leases	–	1,050,507	1,050,507	216,563	–
	6,273,089	13,531,634	1,050,507	216,563	–
At 31 December 2009					
Bank loans subject to a repayment on demand clause	1,454,874	–	–	–	–
Obligations under finance leases	–	1,050,507	1,050,507	2,101,015	2,317,559
	1,454,874	1,050,507	1,050,507	2,101,015	2,317,559

The following table summarises the maturity analysis of the Group's and the Company's financial liabilities, including bank loans with a repayment on demand clause, based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. As a result, these amounts were greater than the amounts disclosed in the "On demand" time band in the maturity analysis contained above. Taking into account the Group's and the Company's financial position, the directors do not consider that it is probable that the banks will exercise its discretion to demand immediate repayment. The directors believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

38. FINANCIAL RISK MANAGEMENT (Continued)

38.3 Liquidity risk (Continued)

The Group

	Less than 3 months HK$	Between 3 and 6 months HK$	Between 6 and 12 months HK$	Between 1 and 2 years HK$	Between 2 and 3 years HK$
At 31 December 2010					
Trade and other payables	24,916,594	–	–	–	–
Bank loans subject to a repayment on demand clause	1,300,095	1,300,095	2,600,190	5,200,380	1,204,511
Other bank loans	12,481,127	–	–	–	–
Obligations under finance leases	1,050,507	1,050,507	216,563	–	–
	39,748,323	2,350,602	2,816,753	5,200,380	1,204,511
At 31 December 2009					
Trade and other payables	25,000,880	–	–	–	–
Bank loans subject to a repayment on demand clause	552,763	552,763	368,509	–	–
Obligations under finance leases	1,050,507	1,050,507	2,101,015	2,317,559	–
	26,604,150	1,603,270	2,469,524	2,317,559	–

The Company

	Less than 3 months HK$	Between 3 and 6 months HK$	Between 6 and 12 months HK$	Between 1 and 2 years HK$	Between 2 and 3 years HK$
At 31 December 2010					
Other payables	805,615	–	–	–	–
At 31 December 2009					
Other payables	1,052,524	–	–	–	–

38. FINANCIAL RISK MANAGEMENT (Continued)

38.3 Liquidity risk (Continued)

The contractual financial guarantees provided by the Company are disclosed in note 37. As assessed by the directors, it is not probable that the subsidiaries would default repayment of the bank loans. In addition, it is not probable that the banks would claim the Company for losses in respect of the guarantee contracts due to security in place for the loans. Accordingly, no provision for the Company's obligations under the guarantees has been made. For the purpose of maturity analysis, the contractual maturity of these financial guarantees resembles the contractual maturity of the Group's banks loans and obligations under finance leases as presented above.

38.4 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's interest rate risk mainly arises from bank deposits, bank loans and finance lease payments arranged at variable rates which expose the Group to cash flow interest rate risk.

The Group manages interest rate risk by monitoring its interest rate profile as set out in note 29. The Group conducts periodical review to determine preferred interest rates mix appropriate for the business profile. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

The policy to manage interest rate risk has been followed by the Group since prior years is considered to be effective.

Sensitivity analysis

The following table illustrates the sensitivity of the Group's profit for the year and equity to a possible change in interest rates of +/- 0.5% (2009: +/- 0.5%), with effect from the beginning of the year. The calculations are based on the Group's cash and cash equivalents net of borrowings held at the end of the reporting period. All other variables are held constant.

The Group

	Increase/(Decrease) in profit for the year and retained earnings	
	+0.5% HK$	– 0.5% HK$
31 December 2010	**134,000**	**(134,000)**
31 December 2009	137,000	(137,000)

38. FINANCIAL RISK MANAGEMENT (Continued)

38.4 Interest rate risk (Continued)

The assumed changes in interest rates are considered to be reasonably possible based on observation of current market conditions and represents the management's assessment of a reasonably possible change in interest rate over the period until the next annual reporting period.

The sensitivity analysis for the year ended 31 December 2009 has been prepared on the same basis.

38.5 Equity price risk

Equity price risk refers to the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than changes in interest rates and foreign exchange rates). The Group's exposures to equity risk arise from available-for-sale investments (note 22). The Group has not formulated a policy to manage the price risk.

The Group's available-for-sale investments are non-listed securities. It is assumed that none of the Group's available-for-sale investments would be considered impaired as a result of a reasonably possible decrease in the share price.

The Company does not have significant exposures to price risk at the end of the reporting period (2009: nil).

38.6 Foreign 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 exposures to currency risk arise from its overseas sales and purchases, which are primarily denominated in RMB, Great British Pounds ("GBP"), Euro ("EUR") and United Stated Dollars ("US$"). These are not the functional currencies of the Group entities to which these transactions relate.

To mitigate the Group's exposure to foreign currency risk, cash flows in foreign currencies are monitored into in accordance with the Group's risk management policies. Generally, the Group's risk management procedures distinguish short term foreign currency cash flows (due within 6 months) from longer term cash flows. Where the amounts to be paid and received in a specific currency are expected to largely offset one another, no further hedging activity is undertaken. The policy to manage foreign currency risk has been followed by the Group since prior years and is considered to be effective.

38. FINANCIAL RISK MANAGEMENT (Continued)

38.6 Foreign currency risk (Continued)

Summary of exposure

Foreign currency denominated financial assets and liabilities, translated into Hong Kong dollars at the closing rates, are as follows:

The Group

	2010				2009			
	RMB HK$	US$ HK$	GBP HK$	EUR HK$	RMB HK$	US$ HK$	GBP HK$	EUR HK$
Trade receivables	25,000	29,340,000	–	219,000	24,000	23,285,000	–	160,000
Bank balances and cash	1,000	9,480,000	15,000	9,000	3,000	15,850,000	2,000	2,000
Trade payables	(17,000)	(12,867,000)	(308,000)	–	(17,000)	(4,207,000)	(237,000)	–
Gross exposure arising from recognised financial assets and liabilities	9,000	25,953,000	(293,000)	228,000	10,000	34,928,000	(235,000)	162,000

The Company does not have any exposures to foreign currencies at the end of the reporting period (2009: nil).

Sensitivity analysis

The following table illustrates the sensitivity of the Group's profit for the year and equity in regards to a 10% (2009: 10%) appreciation in the group entities' functional currencies against the respective foreign currencies. The 10% is the rate used when reporting foreign currency risk internally to key management personnel and represents management's best assessment of the possible change in foreign exchange rates.

The sensitivity analysis of the Group's exposure to foreign currency risk at the end of the reporting period has been determined based on the assumed percentage changes in foreign currency exchange rates taking place at the beginning of the financial year and held constant throughout the year.

38. FINANCIAL RISK MANAGEMENT (Continued)

38.6 Foreign currency risk (Continued)

The Group

	2010				2009			
	RMB	US$	GBP	EUR	RMB	US$	GBP	EUR
	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$
Profit for the year and retained earnings	1,000	2,167,000	(24,000)	19,000	1,000	2,916,000	(20,000)	14,000

An 10% depreciation in the group entities' functional currencies against the respective foreign currencies would have the same magnitude on the Group's profit for the year and equity but of opposite effect.

The sensitivity analysis for the year ended 31 December 2009 has been prepared on the same basis.

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nevertheless, the analysis above is considered to be representative of the Group's exposure to foreign currency risk.

38.7 Fair value measurements recognised in the statement of financial position

The following table presents financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy. The hierarchy groups financial assets and liabilities into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets and liabilities. The fair value hierarchy has the following levels:

– Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;

– Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived form prices); and

– Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

38. FINANCIAL RISK MANAGEMENT (Continued)

38.7 Fair value measurements recognised in the statement of financial position (Continued)

An analysis of the Group's financial assets measured at fair value is as follows:

	Level 1 HK$	Level 2 HK$	Level 3 HK$ (Note)	Total HK$
At 31 December 2010				
Available-for-sale financial assets				
– Investment in Hota (USA)	–	–	64,889,126	64,889,126
Financial assets at fair value through profit or loss				
– Derivative component of investment in Hota (USA)	–	–	16,632,846	16,632,846
	–	–	81,521,972	81,521,972

	Level 1 HK$	Level 2 HK$	Level 3 HK$	Total HK$
At 31 December 2009				
Available-for-sale financial assets				
– Investment in Hota (USA)	–	–	57,068,721	57,068,721
Financial assets at fair value through profit or loss				
– Derivative component of investment in Hota (USA)	–	–	19,561,081	19,561,081
	–	–	76,629,802	76,629,802

During the reporting period, there were no transfers of instruments between Level 1 and Level 2.

Note:

The fair value of the Group's unlisted securities has been estimated using a valuation technique of discounted cash flow method based on the assumptions and estimates including the discount rates of 30% with the consideration of the small capitalisation risk premium and startup risk premium. Hota (USA)'s major subsidiary will start operations in Zhangijiagang, the PRC with initial revenue contributions by second quarter of 2011 and will seek an initial public offering of its securities by the third quarter of 2012.

38. FINANCIAL RISK MANAGEMENT (Continued)

38.7 Fair value measurements recognised in the statement of financial position (Continued)

The valuation requires the directors to make estimates about the expected future cash flows. The directors believes that the estimated fair value resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and related changes in fair values, which are recorded in consolidated statement of comprehensive income, are reasonable, and that they were the most appropriate values at the reporting date.

The Group's financial assets classified in Level 3 use valuation techniques based in significant inputs that are not based on observable market data. The financial instruments within this level can be reconciled from opening to closing balances as follows:

	2010 HK$
Opening balance	76,629,802
Change in fair value	4,892,170
Closing balance	81,521,972

39. CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optima capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.

The Group monitors capital on the basis of gearing ratio. The ratio is defined and calculated by the Group as total borrowings expressed as a percentage of total assets, at 31 December 2010 was 7.2% compared to 4.0% at 31 December 2009.

To increase further capital and yet to minimise the cost of borrowing that the Group could possibly encountered in foreseeable future, the Group has completed the Share Subdivision and the Open Offer subsequent to the reporting period as further detailed in note 40.

40. EVENT AFTER THE END OF THE REPORTING PERIOD

(a) Pursuant to the resolution passed at the extraordinary general meeting on 17 January 2011, each of the issued and unissued shares of HK$0.1 in the share capital of the Company is sub-divided into five new shares of HK$0.02 each (the "Share Sub-division"). Immediately after the Share Sub-division, the authorised share capital of the Company becomes HK$100,000,000 divided into 5,000,000,000 shares of HK$0.02 each by the creation of additional 4,000,000,000 shares, and the issued share capital becomes HK$55,192,000 divided into 2,759,600,000 shares of HK$0.02 each by the creation of additional 2,207,680,000 shares.

(b) In February 2011, the Company proposed to raise fund by way of open offer of 275,960,000 shares at a price of HK$0.36 per offer share on the basis of one offer share for every ten shares held (the "Open Offer"). Upon the completion of the Open Offer on 15 March 2011, the issued share capital of the Company has become HK$60,711,200 divided into 3,035,560,000 shares of HK$0.02. The net proceeds generated from the Open Offer amounted to approximately HK$98,150,000.

Financial Summary

For the year ended 31 December 2010

The following is a summary of the consolidated results and consolidated assets and liabilities of the Group for each of the five years ended 31 December 2010:

CONSOLIDATED RESULTS

	2006 HK$	2007 HK$	2008 HK$	2009 HK$	**2010** **HK$**
Revenue	73,782,948	117,199,695	140,352,099	141,509,907	**152,604,376**
Profit from operations	1,726,353	9,839,952	7,935,154	18,051,846	**18,313,258**
Finance costs	(803,856)	(457,885)	(498,100)	(354,587)	**(527,821)**
Share of results of a jointly controlled entity	–	–	–	(1,161,881)	**(346,924)**
Profit before income tax	922,497	9,382,067	7,437,054	16,535,378	**17,438,513**
Income tax expense	(842,793)	(1,382,014)	(3,059,752)	(6,236,985)	**(3,942,871)**
Profit for the year	79,704	8,000,053	4,377,302	10,298,393	**13,495,642**
				(Restated)	
Earnings per share					
Basic	0.025 cents	2.03 cents	0.97 cents	0.439 cents	**0.537 cents**
Diluted	N/A	2.01 cents	0.97 cents	0.432 cents	**0.507 cents**

CONSOLIDATED ASSETS AND LIABILITIES

	2006 HK$	2007 HK$	2008 HK$ (Restated)	2009 HK$	**2010** **HK$**
Non-current assets	29,198,459	40,880,743	68,776,410	115,560,556	**111,666,544**
Current assets	48,036,364	94,931,672	87,976,909	82,190,145	**179,173,254**
Current liabilities	25,258,283	30,249,353	36,468,056	33,059,216	**47,867,692**
Non-current liabilities	2,818,305	5,508,255	6,828,685	2,300,252	**4,707**