PHOENITRON HOLDINGS LIMITED
品創控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8066)

INTERIM REPORT
FOR THE SIX MONTHS ENDED 30 JUNE 2011

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.

SUMMARY

- The Group recorded an unaudited revenue of HK$65,860,000 for the six months ended 30 June 2011, representing a drop of 7.7% as compared with that of the corresponding period in 2010.
- The unaudited loss attributable to the owners of the Company for the six months ended 30 June 2011 was HK$41,000.
- The Board does not recommend any payment of an interim dividend for the six months ended 30 June 2011.

UNAUDITED INTERIM RESULTS

The board (the "Board") of Directors announces the unaudited consolidated results of the Company and its subsidiaries (together, the "Group") for the three months and the six months ended 30 June 2011 together with the comparative figures for the corresponding periods in 2010 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Three months ended 30 June		**Six months ended** 30 June	
		2011	2010	**2011**	2010
	Notes	***HK$***	*HK$*	***HK$***	*HK$*
Revenue	2	**33,491,574**	36,973,397	**65,859,864**	71,359,483
Cost of sales		**(25,700,436)**	(28,525,645)	**(50,084,951)**	(54,027,901)
Gross profit		**7,791,138**	8,447,752	**15,774,913**	17,331,582
Other revenue	3	**4,481,743**	79,628	**8,496,833**	133,771
Selling and distribution costs		**(1,441,725)**	(1,366,489)	**(2,654,206)**	(2,763,043)
Administrative expenses		**(5,861,714)**	(5,109,513)	**(12,077,454)**	(10,738,605)
Finance costs	4	**(100,511)**	(146,853)	**(211,859)**	(234,190)
Share of losses of a jointly controlled entity		**(2,584,535)**	(802,877)	**(7,527,147)**	(1,555,549)
Profit before income tax		**2,284,396**	1,101,648	**1,801,080**	2,173,966
Income tax expense	5	**(982,082)**	(658,426)	**(1,841,805)**	(1,466,176)
(Loss) Profit for the period		**1,302,314**	443,222	**(40,725)**	707,790
Other comprehensive income					
Exchange gain on translation of financial statements of foreign operations		**1,205,426**	462,985	**1,475,475**	662,744
Other comprehensive income for the period		**1,205,426**	462,985	**1,475,475**	662,744
Total comprehensive income for the period		**2,507,740**	906,207	**1,434,750**	1,370,534
		HK cents	*HK cents* (Restated)	***HK cents***	*HK cents* (Restated)
(Losses) Earnings per share	7				
– Basic		**0.0429**	0.0180	**(0.0014)**	0.0289
– Diluted		**0.0428**	0.0168	**(0.0014)**	0.0271

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**Unaudited 30 June 2011** *HK$*	Audited 31 December 2010 *HK$*
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**26,510,655**	26,431,378
Intangible assets		**420,000**	420,000
Interest in an associate		**1,135,136**	1,135,136
Long-term financial assets		**86,769,366**	83,680,030
		114,835,157	111,666,544
Current assets			
Inventories	*8*	**6,351,311**	6,280,020
Trade and other receivables	*9*	**49,091,265**	57,521,989
Amount due from a jointly controlled entity	*10*	**90,408,952**	67,103,364
Pledged bank deposits		**–**	927,117
Cash and cash equivalents		**132,675,388**	47,340,764
		278,526,916	179,173,254
Current liabilities			
Trade and other payables	*11*	**32,851,681**	26,532,929
Borrowings		**29,401,893**	20,956,851
Current tax liabilities		**691,817**	377,912
		62,945,391	47,867,692
Net current assets		**215,581,525**	131,305,562
Total assets less current liabilities		**330,416,682**	242,972,106
Non-current liabilities			
Deferred tax liabilities		**4,707**	4,707
		4,707	4,707
Net assets		**330,411,975**	242,967,399
EQUITY			
Share capital		**60,711,200**	55,192,000
Reserves		**269,700,775**	187,775,399
Total equity		**330,411,975**	242,967,399

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Contributed surplus	Share option reserve	Other reserves	Exchange difference	Available-for sale financial assets revaluation reserve	Warrant reserve	Accumulated profits	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
At 1 January 2010	48,910,000	77,937,474	2,448,014	7	6,843,345	–	1,445,500	24,806,803	162,391,233
2009 final dividend paid during the period	–	(7,354,500)	–	–	–	–	–	–	(7,354,500)
Issue of new shares upon exercise of warrants	500,000	5,125,000	–	–	–	–	–	–	5,625,000
Issue of new shares upon exercise of share options	120,000	996,000	–	–	–	–	–	–	1,116,000
Transactions with owners	49,530,000	76,703,974	2,448,014	7	6,843,435	–	1,445,500	24,806,803	161,777,733
Profit for the period	–	–	–	–	–	–	–	707,790	707,790
Other comprehensive income – Currency translation	–	–	–	–	662,744	–	–	–	662,744
Total comprehensive income for the period	–	–	–	–	662,744	–	–	707,790	1,370,534
At 30 June 2010	**49,530,000**	**76,703,974**	**2,448,014**	**7**	**7,506,179**	**–**	**1,445,500**	**25,514,593**	**163,148,267**
At 1 January 2011	55,192,000	137,272,980	1,360,008	7	8,781,604	2,058,355	–	38,302,445	242,967,399
2010 final dividend paid during the period	–	(12,142,240)	–	–	–	–	–	–	(12,142,240)
Issue of new shares on completion of the Open Offer	5,519,200	93,826,400	–	–	–	–	–	–	99,345,600
Share issue expenses	–	(1,193,534)	–	–	–	–	–	–	(1,193,534)
Transactions with owners	60,711,200	217,763,606	1,360,008	7	8,781,604	2,058,355	–	38,302,445	328,977,225
Loss for the period	–	–	–	–	–	–	–	(40,725)	(40,725)
Other comprehensive income – Currency translation	–	–	–	–	1,475,475	–	–	–	1,475,475
Total comprehensive income for the period	–	–	–	–	1,475,475	–	–	(40,725)	1,434,750
At 30 June 2011	**60,711,200**	**217,763,606**	**1,360,008**	**7**	**10,257,079**	**2,058,355**	**–**	**38,261,720**	**330,411,975**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2011	2010
	HK$	*HK$*
Net cash generated from (used in) operating activities	**9,153,469**	(5,845,974)
Net cash used in investing activities	**(18,511,956)**	(1,674,105)
Net cash generated from financing activities	**94,394,533**	16,893,419
Net increase in cash and cash equivalents	**85,036,046**	9,373,340
Cash and cash equivalents brought forward	**47,340,764**	32,949,818
Effect of foreign exchange rate changes	**298,578**	120,766
Cash and cash equivalents carried forward	**132,675,388**	42,443,924

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The Group's unaudited condensed interim financial statements have been prepared in accordance with the applicable disclosure requirements of the GEM Listing Rules and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The accounting policies adopted and methods of computation are consistent with those followed in the preparation of the Company's audited financial statements for the year ended 31 December 2010, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (which include individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations) as disclosed below.

The unaudited condensed interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2010.

In the current interim period, the Group has applied, for the first time, of the following new and revised HKFRSs issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual financial period beginning on or after 1 January 2011.

HKFRSs (Amendments)	Improvements to HKFRSs 2010
Amendment to HKAS 32	Classification of Rights Issues
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments

The adoption of these new and revised HKFRSs has had no material effect on this interim financial report.

The Group has not early adopted the following HKFRSs that have been issued but are not yet effective.

Amendments to HKFRS 7	Disclosure – Transfers of Financial Assets[1]
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[3]
HKFRS 13	Fair Value Measurements[3]

Notes:

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of these new/revised HKFRSs and the directors so far concluded that the application of these new/revised HKFRSs will have no material impact on the unaudited condensed interim financial statements.

2. SEGMENT INFORMATION AND REVENUE

The Group focuses on the sales of smart cards and plastic cards and smart card application systems. Information reported to the Group's chief operating decision maker, for the purpose of resource allocation and assessment performance is focused on the operating results of the Group as a whole as the Group's resources are integrated and no discrete financial information is available. Accordingly, no analysis is performed.

Revenue from the Group's principal activities recognised during the reporting period is as follows:

	Unaudited Three months ended 30 June		**Unaudited Six months ended 30 June**	
	2011	2010	**2011**	2010
	HK$	*HK$*	***HK$***	*HK$*
Sales of smart cards and plastic cards	**33,238,114**	36,964,647	**65,589,265**	71,323,083
Sales of smart card application systems	**252,660**	8,750	**260,160**	35,550
Service and other income	**800**	–	**10,439**	850
	33,491,574	36,973,397	**65,859,864**	71,359,483

3. OTHER INCOME

	Unaudited Three months ended 30 June		**Unaudited Six months ended 30 June**	
	2011	2010	**2011**	2010
	HK$	*HK$*	***HK$***	*HK$*
Handling fee income	**768,801**	–	**1,427,550**	–
Gain on disposal of property, plant and equipment	**70**	–	**7,070**	–
Interest income *(note)*	**3,710,646**	37,314	**7,026,187**	45,175
Sundry income	**2,226**	42,314	**36,026**	88,596
	4,481,743	79,628	**8,496,833**	133,771

Note:

Interest income comprises interest income arising from amount due from a jointly-controlled entity of HK$3,664,264, interest income arising from amortisation of available-for-sale financial assets of HK$3,089,336, interest income on loan receivable of HK$164,383 and bank interest income of HK$108,204 (six months ended 30 June 2010: HK$45,175).

4. FINANCE COSTS

	Unaudited Three months ended 30 June		**Unaudited Six months ended 30 June**	
	2011	2010	**2011**	2010
	HK$	*HK$*	***HK$***	*HK$*
Interest on bank loans wholly repayable within five years	**93,668**	109,203	**191,385**	151,332
Interest element of finance lease payments	**6,843**	37,650	**20,474**	82,858
	100,511	146,853	**211,859**	234,190

5. INCOME TAX EXPENSE

	Unaudited		**Unaudited**	
	Three months ended 30 June		**Six months ended 30 June**	
	2011	2010	**2011**	2010
	HK$	*HK$*	***HK$***	*HK$*
Current tax				
– Hong Kong Profits Tax				
Current year	**1,042,000**	120,000	**1,750,000**	177,000
– PRC Enterprise Income Tax				
Current year	**(59,918)**	538,426	**91,805**	1,289,176
Total income tax expense	**982,082**	658,426	**1,841,805**	1,466,176

Hong Kong Profits Tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits for the periods. Taxation for subsidiaries established and operated in the People's Republic of China ("PRC") is calculated on the estimated assessable profit for the periods 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 rates of 25% (2010: 25%).

6. DIVIDEND

The Board does not recommend any payment of an interim dividend for the six months ended 30 June 2011 (2010: NIL).

The final dividend of HK$0.004 (2009: HK$0.015) per share for the year ended 31 December 2010 had been approved and was paid before 17 May 2011.

7. (LOSSES) EARNINGS PER SHARE

(a) Basic (losses) earnings per share

The calculation of basic (losses) earnings per share is based on the profit for the three months ended 30 June 2011 of HK$1,302,314 (three months and six months ended 30 June 2010: HK$443,222 and HK$707,790 respectively) and the loss for the six months ended 30 June 2011 of HK$40,725 and the weighted average of 3,035,560,000 and 2,931,884,420 ordinary shares in issue during the periods, as adjusted for the Share Sub-division as defined and disclosed in the section headed "Share Sub-division" below as if it had occurred on 1 January 2011 (three months and six months ended 30 June 2010: 2,457,445,055 and 2,451,505,525 ordinary shares respectively, restated for the Share Sub-division).

(b) Diluted (losses) earnings per share

The calculation of diluted (losses) earnings per share is based on the profit for the three months ended 30 June 2011 of HK$1,302,314 (three months and six months ended 30 June 2010: HK$443,222 and HK$707,790 respectively) and the loss for the six months ended 30 June 2011 of HK$40,725 and the weighted average of 3,040,507,115 and 2,937,067,907 ordinary shares (three months and six months ended 30 June 2010: 2,641,136,341 and 2,608,363,691 ordinary shares, restated for the Share Sub-division), calculated as follows:

	Three months ended 30 June		**Six months ended 30 June**	
	2011	2010 (Restated)	**2011**	2010 (Restated)
Weighted average number of ordinary shares used in the calculation of basic (losses) earnings per share	**3,035,560,000**	2,457,445,055	**2,931,884,420**	2,451,505,525
Effect of deemed issue of shares under the Company's share option scheme	**4,947,115**	6,302,794	**5,183,487**	6,687,986
Effect of deemed issue of shares on exercise of warrants	**–**	177,388,492	**–**	150,170,180
Weighted average number of ordinary shares for the purpose of calculating diluted (losses) earnings per share	**3,040,507,115**	2,641,136,341	**2,937,067,907**	2,608,363,691

8. INVENTORIES

	Unaudited 30 June 2011 *HK$*	Audited 31 December 2010 *HK$*
Raw materials	**3,020,230**	2,338,771
Work-in-progress	**2,392,871**	2,242,881
Finished goods	**938,210**	1,698,368
	6,351,311	6,280,020

9. TRADE AND OTHER RECEIVABLES

	Unaudited 30 June 2011 *HK$*	Audited 31 December 2010 *HK$*
Trade receivables – From third parties *(note (a))*	**39,413,527**	47,247,846
Loan receivable *(note (b))*	**–**	5,268,493
Other receivables, deposits and prepayment	**9,677,738**	5,005,650
	49,091,265	57,521,989

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 trade receivables is as follows:

	Unaudited 30 June 2011 *HK$*	Audited 31 December 2010 *HK$*
0 – 30 days	**11,677,643**	19,687,499
31 – 90 days	**23,277,465**	20,995,587
Over 90 days	**4,458,419**	6,564,760
	39,413,527	47,247,846

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

	Unaudited 30 June 2011 *HK$*	Audited 31 December 2010 *HK$*
Neither past due nor impaired	**20,438,095**	26,879,419
1 – 30 days past due	**6,120,220**	10,223,260
31 – 90 days past due	**5,074,961**	6,955,878
Over 90 days past due	**7,780,251**	3,189,289
	39,413,527	47,247,846

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 the 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. During the reporting period, the loan has been fully settled by the third party company.

10. AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

Except for the balance due from the jointly controlled entity with carrying amount of HK$84,087,500 (the "loans") 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.

11. TRADE AND OTHER PAYABLES

	Unaudited 30 June 2011	Audited 31 December 2010
	HK$	*HK$*
Trade payables – To third parties	**17,138,313**	18,717,582
Other payables and accrual	**15,713,368**	7,815,347
	32,851,681	26,532,929

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

	Unaudited 30 June 2011	Audited 31 December 2010
	HK$	*HK$*
1 – 30 days	**5,647,480**	12,852,597
31 – 60 days	**5,380,929**	4,824,956
61 – 90 days	**3,068,814**	255,244
Over 90 days	**3,041,090**	784,785
	17,138,313	18,717,582

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.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

Revenue

During the period under review, the Group's financial results was principally derived from its Intercard subsidiary which is engaged in the manufacturing and sales of smart cards and plastic cards, and in the provision of customised smart card application systems.

The Group's Intercard subsidiary faced a difficult and competitive business environment in the first half of 2011, characterized by on-going price pressures and rising costs in China. The Group's revenue for the six months ended 30 June 2011 was HK$65.9 million, representing a drop of 7.7% as compared to the corresponding period in 2010 of HK$71.4 million. The decrease was due primarily to price-cuts that have been offered to select customers in exchange for greater sales volume.

Cost of Sales and Gross Profit

During the period under review, cost of sales dropped by HK$3.9 million, or 7.3%, from HK$54.0 million for the corresponding period in 2010 to HK$50.1 million. This was due to production efficiencies which led to lower per unit material costs and also a decline in direct depreciation charges as fixed assets gradually depreciate in full. However, such favorable effects were partly offset by the substantial increase in direct labor costs needed to meet the increased volume orders. Wages have experienced a high inflation rate in China in Shenzhen and Beijing where the Group's plants are located, and are RMB-based which has also appreciated relative to the HK dollar during the period. As a result, gross profit dropped to HK$15.8 million, down by HK$1.5 million, or 9.0%, as compared to the corresponding period in 2010 of HK$17.3 million. Due to the aforesaid, gross profit margin for the six months ended 30 June 2011 dropped slightly to 24.0%, as compared to 24.3% for the corresponding period in 2010.

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. New related value-added services and smartcard product innovations are also under development.

Overall, we remain confident about the quality of contribution of Intercard's business, which enjoys a sizable market share of the global outsourced SIM card production. Netting out the impact of the jointly controlled entity on the Income Statement, the smartcard business generated HK$1.1 million pretax profit in the period under review, and over HK$8.7 million in operating cash inflow for the period under review.

Other Income

Other income of HK$8.5 million (six months ended 30 June 2010: HK$0.13 million) was mainly comprised of interest income arising from the amount due from a jointly controlled entity of HK$3.7 million and interest income arising from amortisation of available-for-sale financial assets of HK$3.1 million, handling fee income of HK$1.4 million, as well as bank and other interest income and gain on disposal of fixed assets.

Selling and Distribution Costs

Selling and distribution costs decreased by 3.9% over the corresponding period of last year to HK$2.65 million (six months ended 30 June 2010: HK$2.76 million), and was attributable to the drop in freight charges and other relating expenses in association to the drop in revenue.

Administrative Expenses

Administrative expenses recorded an increase of HK$1.4 million or 12.5% over the corresponding period of last year to HK$12.1 million (six months ended 30 June 2010: HK$10.7 million). The increase was attributable to the increase in legal and professional fees (for various corporate exercises and transactions of the Group), consultancy fees and various operating expenses during the period under review.

Finance Costs

During the period under review, the Group's finance costs amounted to HK$0.21 million (six months ended 30 June 2010: HK$0.23 million).

Share of Results of a Jointly Controlled Entity

Share of losses of Hota, a jointly controlled entity, after tax amounted to HK$7.53 million (six months ended 30 June 2011: HK$1.56 million). Hota's loss in the first half of 2011 was comprised of start-up operating expenses. Hota is now in its final phase of plant installation and will proceed to the trial production shortly. We expect Hota will start operations in Zhangjiagang with initial revenue contributions by early September 2011. Overseas operations were also established earlier to handle 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.

Income Tax Expense

Income tax expense of the Group for the six months ended 30 June 2011 was HK$1.84 million, representing an increase of 25.6% as compared to the corresponding period in 2010 of HK$1.47 million. The increase was mainly attributable to the increase in taxable income derived from the interest income earned but was partly offset by the dropped in assessable profit from the smartcard business.

As a result of the foregoing, loss attributable to the owners of the Company for the six months ended 30 June 2011 amounted to HK$0.04 million (six months ended 30 June 2010: profit of HK$0.71 million).

During the period under review, the Company has completed the Share Subdivision and the Open Offer (as defined and disclosed in the sections headed “Share-Subdivision” and “Open Offer” below).

The Share Sub-division 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 Sub-division 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, it was decided that the Open Offer would allow the Group to strengthen its balance sheet at the lowest cost and avoid a substantial increase in exposure to potentially rising interest rates in the future. The Board considered that the Open Offer was 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 was 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.

LIQUIDITY AND FINANCIAL RESOURCES

During the period 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 with the completion of the Open Offer. As at 30 June 2011, the Group had cash and bank balances of HK$132.7 million, finance leases payable of HK$0.2 million and a secured bank loan of HK$29.2 million.

As at 30 June 2011, the Group had current assets of HK$278.5 million and current liabilities of HK$62.9 million. The current ratio, expressed as current assets over current liabilities, was maintained at a satisfactory level of 4.4.

GEARING RATIO

The gearing ratio of the Group, expressed as a percentage of total bank borrowings to total assets of the Group, was 7.5% as at 30 June 2011 (31 December 2010: 7.2%). Accordingly, the financial position of the Group has remained very liquid.

EMPLOYEE INFORMATION

As at 30 June 2011, the Group employed a total of 527 employees, of which 14 were located in Hong Kong and the rest were located in the PRC. Employee cost, including directors' remuneration, was HK$15.5 million for the period 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 investment in Hota (USA), there were no other significant investments for the period ended 30 June 2011.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group made no material acquisitions or disposals of subsidiaries and affiliated companies during the six months ended 30 June 2011.

CHARGES ON GROUP ASSETS AND CONTINGENT LIABILITIES

At 30 June 2011, certain plant and machinery with the carrying amount of HK$2,764,183 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$59,406,776 (31 December 2010: HK$56,406,776) of which HK$29,401,893 (31 December 2010: HK$20,956,851) was outstanding as at 30 June 2011.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As at 30 June 2011, there were no future plans for material investments or capital assets.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

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 Renminbi ("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 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.

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

As at 30 June 2011, 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 Rule 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	Beneficial owner	Long	5,250,000	–	0.17
Leung Quan Yue, Michelle *(Note 2)*	Beneficial owner	Long	200,000	2,500,000	0.09
Yang Meng Hsiu	Beneficial owner	Long	43,000,000	–	1.42

Notes:

1. As at 30 June 2011, the named director held 5,000,000 share options conferring rights to subscribe for 5,000,000 shares.

2. As at 30 June 2011, the named director held 2,500,000 share options conferring rights to subscribe for 2,500,000 shares.

Save as disclosed above, as at 30 June 2011, 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 Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2011, the following persons/companies had interest 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 any other member of the Group:

Long positions in shares of the Company

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	493,270,125	16.25
Mr. Tsai Chi Yuan *(Note 1)*	Interests in controlled company	Long	493,270,125	16.25
Best Heaven Limited *(Note 2)*	Beneficial	Long	316,500,000	10.43
Mr. Chu Chen Lin *(Note 2)*	Interests in controlled company	Long	316,500,000	10.43

Notes:

1. Mr. Tsai Chi Yuan is deemed to be a substantial shareholder of the Company by virtue of his 100% beneficial interest in Golden Dice Co., Ltd.

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 30 June 2011, 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 rights to vote in all circumstances at general meetings of any other member of the Group.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The corporate governance principles of the company emphasise a quality Board, sound internal controls, transparency and accountability to all shareholders. Throughout the six months ended 30 June 2011, the Group has 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 A 2.1 stipulated in the following paragraphs.

The Code provision A 2.1 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 reason 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.

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 by the Company, all Directors have confirmed that they have compiled with the required standard set out in such code of conduct throughout the six months ended 30 June 2011.

AUDIT COMMITTEE

The Company has 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 independent non-executive Directors, namely, Ms. Wong Ka Wai, Jeanne, Mr. Leung Ka Kui, Johnny and Mr. Chan Siu Wing, Raymond. The chairman of the audit committee is Ms. Wong Ka Wai, Jeanne.

The Group's unaudited results for the three months and the six months ended 30 June 2011 have been reviewed by the audited committee.

COMPETING INTERESTS

As at 30 June 2011, 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.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2011, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

SHARE SUB-DIVISION

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.

OPEN OFFER

In February 2011, the Company proposed to raise funds by way of an 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.

For and on behalf of the Board
Lily Wu
Chairman

Hong Kong, 11 August 2011