PHOENITRON

Phoenitron Holdings Limited

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

Seeing Further
Going Forward

Annual Report 2011

GEM

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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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Contents

Corporate Information

DIRECTORS

Executive Directors

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

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

Wong Ka Wai, Jeanne *(Chairman)*
Chan Siu Wing, Raymond
Leung Ka Kui, Johnny

REMUNERATION COMMITTEE

Leung Ka Kui, Johnny *(Chairman)*
Chang Wei Wen
Chan Siu Wing, Raymond
Lily Wu
Wong Ka Wai, Jeanne

NOMINATION COMMITTEE

Lily Wu *(Chairman)*
Chan Siu Wing, Raymond
Leung Ka Kui, Johnny
Wong Ka Wai, Jeanne
Yang Meng Hsiu

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

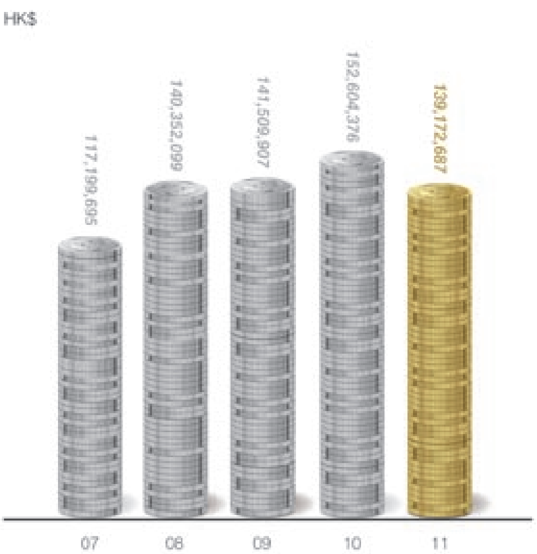
www.phoenitron.com

STOCK CODE

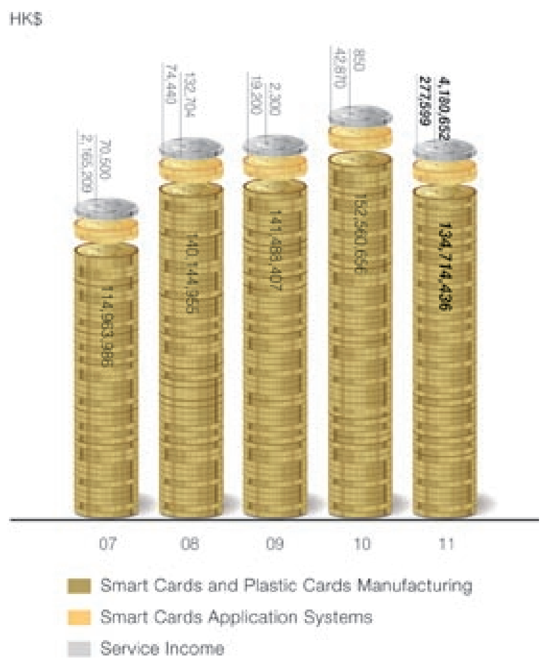
8066

Financial Highlights

TURNOVER



TURNOVER BY SEGMENTS



TOTAL ASSETS AT 31 DECEMBER 2011

- 2% Other Assets
- 5% Property, plant and equipment
- 6% Prepayments for acquisition of property, plant and equipment
- 14% Trade and other receivables
- 15% Bank balances and cash
- 27% Amount due from a jointly controlled entity
- 31% Long-term financial assets

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 2011.

RESULTS

For the year ended 31 December 2011, the Company recorded a consolidated revenue of HK$139,173,000 (2010: HK$152,604,000) and profit attributable to the owners of the Company of HK$87,070,000 (2010: HK$13,496,000).

DIVIDEND

The Board of Directors (the "Board") of the Company recommends the payment of a final dividend of 0.2 HK cents for the year ended 31 December 2011.

BUSINESS AND OPERATION REVIEW

During the year under review, in addition to the Group's Intercard business of the manufacturing and sales of smart cards and plastic cards and the provision of customized smart card application systems, the Group has widened its business scope to the trading of scrapped automobiles and providing management and financial consultancy services. The Board believes the diversification and synthesis of our businesses will facilitate the long term development of Phoenitron and enhance our shareholder value.

Manufacturing and sales of smart cards and plastic cards

The Group's Intercard business faced a difficult and competitive environment in the year of 2011, as the global demand for SIM cards in the telecommunications market shrank due to the global economic downturn. The contract manufacturing industry was affected by the on-going price pressures and rising costs in China, especially labour. The Group's revenue derived from the manufacturing and sales of smart cards and plastic cards dropped by 11.7% and amounted to HK$134,714,000 (2010: HK$152,561,000). In spite of that, through offering the best-quality, new smartcard product innovations, valued-added services and convenient and speedy delivery services to our customers, management is optimistic about the long-term prospects of the smartcard manufacturing industry. The provision of such value-added products and services is key to maintaining a healthy profit level while helping our customers lower their costs and solidifying our market position as a leading contract manufacturer with a growing stable customer base. During the year under review, the Group invested further in its production plants in Beijing and Shenzhen by expanding and upgrading the card packaging and personalization facilities. At the same time, the Group is vertically integrating upstream and will begin to offer smartcard IC module packaging and testing services starting in the first half of 2012. The Group believes smartcard IC module packaging and testing will increase profit and value-added potential while reducing the number of suppliers and component transportation costs for customers. It is also a high-tech industry in the PRC which enjoys various concessions under the government policies.

Chairman's Statement

Taking into account the need of extra production space and facilities for the abovementioned vertical expansion into the module packaging and testing business and the increased variety of innovative smartcard products, and the fact that the existing Beijing smartcard plant was capacity constrained, the Beijing smartcard operation was moved to a new larger facility which houses both the existing smartcard production business and the new module packaging and testing business. The move and integration commenced in the fourth quarter and the pre-incorporation expenses incurred during the year in relation to the integration amounted to approximately HK$2,149,000, and it is expected that such costs will continue to be incurred until the completion of the integration in the second quarter of 2012. The Board believes, the Company will be able to provide one-stop services to its existing and potential customers, from the original manufacturing and sales of smart cards and plastic cards to the new module packaging and testing services, which will enhance competitiveness and achieve a return to smartcard revenue growth and better profits for the Group.

Provision of customised smart card application systems

Revenue generated from the provision of customised smart card application systems was greater than the previous year. The management expects the research and development of smart cards related products will stimulate growth of the sales of smart card application systems in the coming year.

Management and financial consultancy services

The target clients of the management and financial consultancy services include companies that the Group is currently invested in or may invest in the future. The scope of services includes the provision of corporate organization management, financial and financing planning and implementation, and other services. As at 31 December 2011, the Group recorded a revenue of approximately HK$4,181,000 and the total number of clients is expected to be increased in the year of 2012.

Trading business of scrapped automobile

In order to complement and support the investment in the jointly controlled entity, Hota (USA) Holding Corp. ("HOTA (USA)"), the Group has signed a series of Memorandum of Understanding and/or official agreements with a number of global scrapped automobile suppliers. A subsidiary in Taiwan has also been set up to prepare for the trading business of scrapped automobiles. We expect the new business will generate revenue and profits in the year of 2012.

During the year under review, the Group also established a new headquarters office in Hong Kong for business expansion in the future. The relevant expenses incurred during the year amounted to HK$820,000.

Investment in a jointly controlled entity

During the year under review, the Group's share of losses of its jointly controlled entity, HOTA (USA) and its subsidiaries ("the HOTA group") amounted to HK$73,798,000 (The losses were mainly attributable to the pre-operating costs amounted to approximately HK$14,070,000, and also the loss attributable to the increase in the fair value of the derivative component of Preferred A-shares of HOTA group as at the year-end date of HK$59,728,000). The HOTA group is principally engaged in the recycling of and sales of metals and parts derived from scrapped automobiles. Below are the highlighted major events of HOTA group in 2011 and up to the date of this annual report:

Chairman's Statement

August 2011	Completion of the construction of HOTA plant in Zhangjiagang.
October 2011	In accordance with the relevant import regulations of the PRC, the first shipment of imported compressed scrapped automobiles arrived at Yongjia Pier of Zhangjiagang, Jiangsu Province.
November 2011	The advanced patented state-of-the-art semi-automatic ELVs dismantling and transmission line started operation in HOTA plant in Zhangjiagang.
January 2012	The advanced patented compressed scrapped vehicles briquette auto-feeder and the 6,000 HP force shredder which can recover scrap steel to 98% purity started operations. Along with the dismantling line which was previously launched in Hota Auto Recycling Corporation, a subsidiary of HOTA (USA), the complete ELV dismantling and shredding line is fully operational at Zhangjiagang.
February 2012	The first overseas ELVs dismantling centre of HOTA group with an area of 6,000 hectares commenced production in Imari City, Kyushu, Japan.

The HOTA group recycling and recovery line commenced full operations in January 2012 with initial revenue contribution. The Board anticipates a steady ramp-up of plant utilization and revenue through 2012, and that the HOTA group 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. The HOTA group'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.

As the operations of the HOTA group has commenced, the result is reflected in the fair value of Preferred A shares of HOTA (USA) which are held by the wholly-owned subsidiary of the Group, Fine Wise Holdings Limited ("Fine Wise"). After valuation, at the end of the financial year, the fair value of the derivative component of Preferred A-share of HOTA group held by Fine Wise generated a significant gain of HK$116,942,000.

At the end of 2011, Fine Wise sold part of its shares of HOTA (USA) to an independent third party and realised a return of HK$29,315,000. The primary reason for the disposal, however, was to introduce a strategic shareholder to the HOTA group. The Board believes the introduction of a new strategic shareholder is beneficial to the long term development of scrapped automobile business of HOTA group.

After the share transaction, the shareholding of Fine Wise of HOTA (USA) dropped from 62.19% to 57.81% (assuming all Preferred A shares are converted into common shares of HOTA (USA)). However, the Company lent out a number of loans to HOTA (USA) during the period under review (please refer to note 23 to the financial information below for more information). According to the term of the loan agreements, if HOTA (USA) fails to repay the loans in the principal sum and/or any unpaid interest accrued thereon on their respective repayment date, the Company shall have absolute discretion and election to demand HOTA (USA) issue and allot ordinary shares or preferred shares to the Company (or its nominee) at a price of US$40 per share to offset the entire outstanding amount of the loans and/or any interest accrued thereon payable by HOTA (USA) under the loan agreements. At the reporting date, the total of the principal sum and unpaid interests accrued, being the total borrowings of HOTA (USA) from the Company, amounted to US$17,141,900. Assuming that, at the end of the financial year, the Company exercised the conversion right and converted all the borrowings from HOTA (USA) into the ordinary or preference shares of HOTA (USA), the Group's shareholding on HOTA (USA) would rise from 57.81% to a maximum of 74.73% (assuming all Preferred A shares are converted into common shares of HOTA (USA)). Nonetheless, the Board does not have plans to exercise the conversion right for the time being.

FINANCING OVERVIEW

During the year, the Company has completed the share subdivision on 17 January 2011 ("Share Subdivision") and the open offer in February 2011 ("Open Offer"). 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$98,150,000. 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.

After the year end, the Company as issuer had entered into the conditional warrant subscription agreements with the subscribers as subscribers on 5 January 2012 in relation to a private subscription of a total of 200,000,000 warrants by the subscribers, at the warrant issue price of HK$0.02 each. The warrants entitle the subscribers to subscribe for the new shares at the subscription price of HK$0.36 per new share for a period of 24 months commencing from the date of issue of the warrants. Each warrant carries the right to subscribe for one new share.

Completion of the warrant issues took place on 13 January 2012 in accordance with the terms of the warrant subscription agreements. 200,000,000 warrants had been issued to the subscribers at the warrant issue price of HK$0.02 per warrant.

Chairman's Statement

The Board considers that the warrant placing represents an opportunity to raise additional funds for the Company while broadening the shareholder and capital base of the Company. The net proceeds from the warrant placing, after the deduction of the related expenses, are estimated to be approximately HK$3,860,000, representing a net issue price of approximately HK$0.0193 per warrant. The net proceeds will be applied by the Company as the general working capital of the Group.

Assuming the full exercise of the subscription rights attaching to the warrants, it is expected that approximately HK$72,000,000 will be raised. The net proceeds of approximately HK$72,000,000 (with a net subscription price of approximately HK$0.36 per warrant) will be utilised by the Group as its general working capital and as funds for future development of the existing business of the Group and for future investment should suitable opportunities arise.

For more details please refer to the Company's announcements dated 6 January 2012, 9 January 2012 and 13 January 2012.

PROSPECTS

Looking forward, we expect 2012 will be challenging yet also a year of positive transition. There will likely be some combination of both on-going sales and pricing pressure for our smartcard businesses. 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. At the same time, our new businesses will commence in the year of 2012 and they are expected to contribute revenue and profits for the Company. We believe, by applying the Company's funds in an appropriate manner and by utilizing the unique investment opportunities of the Company, we will bring about stable revenues and profits for our shareholders.

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 2011. 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, 23 March 2012

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

During the year under review, the Group's revenue 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 for the year of 2011, characterized by on-going price pressures and rising costs in China.

The Group has also started a new line of business, that is, the provision of management and consultancy services during the year under review. The revenue generated from this business amounted to HK$4.2 million.

The Group's total revenue for the year of 2011 was HK$139.2 million, representing a drop of 8.8% as compared to the corresponding period in 2010 of HK$152.6 million. The decrease was due primarily to price-cuts that have been offered to select SIM card customers in exchange for greater sales volume as well as the instability of the global economy which dampened our customers' confidence and hence leading to the dropped in sales orders as placing of orders were postponed.

Sales orders had been back to normal in the fourth quarter of 2011.

Cost of Sales and Gross Profit

During the year under review, cost of sales dropped by HK$9.6 million, or 8.6%, from HK$112.4 million for the year of 2010 to HK$102.8 million. This was due to production efficiencies which led to lower per unit material costs and also a decline in direct depreciation charges as some fixed assets have become fully depreciated. However, such favorable effects were partly offset by the substantial increase in direct labor costs. Wages have experienced a high inflation rate in China, in both 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$36.4 million, down by HK$3.8 million, or 9.5%, as compared to the last year of HK$40.2 million. Due to the aforesaid, gross profit margin for the year of 2011 decreased slightly to 26.1%, as compared to 26.3% 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 the contribution of Intercard's business, which enjoys a sizable market share of the global outsourced SIM card production.

Other Income

Other revenue of HK$16.4 million (2010 (restated): HK$8.0 million) was mainly comprised of interest income arising from the amount due from a jointly controlled entity, loan receivable and bank deposits of HK$9.3 million (2010: HK$1.3 million) and interest income arising from amortisation of available-for-sale financial assets of HK$6.9 million (2010: HK$5.8 million).

Management Discussion and Analysis

Fair Value Gain/(Loss) on a Financial Derivative

The Group's investment in the Series A preferred shares of Hota (USA) is accounted for as an available-for-sale financial asset with a derivative component arising from the conversion right of the Series A preferred shares which is stated at fair value of HK$133,575,000 (2010: HK$16,632,846) as at 31 December 2011. As a results, a fair value gain on a financial derivative of HK$116,942,154 was recorded in 2011 (2010: loss of HK$2,928,235).

Other Gains or Losses

During the year under review, other gains amounted HK$27.4 million (2010: losses of HK$0.8 million) which was represented by the gain on partial disposal of a jointly-controlled entity of HK$29.3 million (2010: Nil) plus other losses of HK$1.9 million (2010: losses of HK$0.8 million).

Selling and Distribution Costs

Selling and distribution costs increased by 13.5% over the last year to HK$6.2 million (2010: HK$5.5 million), and was attributable to the increases in freight charges, sales commission, and also in overseas travelling expenses for soliciting new orders and exploring new business opportunities.

Administrative Expenses

Administrative expenses recorded an increase of HK$4.6 million or 22.3% over the corresponding period of last year to HK$25.3 million (2010 (restated): HK$20.7 million). The increase was attributable to the increases in legal and professional fees (for various corporate exercises and transactions of the Group), consultancy fees, rental expenses (for new office in Hong Kong) and various operating expenses during the year under review.

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 amounted to HK$0.71 million (2010: HK$0.53 million) despite a 2.1 times higher in average loan balance.

Share of Losses of a Jointly Controlled Entity

Share of losses of Hota, a jointly controlled entity, after tax amounted to HK$73.8 million (2010: HK$0.3 million). Hota's loss in the year of 2011 was comprised of start-up operating expenses. Hota has started operations in Zhangjiagang with initial revenue contributions by January 2012 and overseas operations has also been established earlier to handle scrap automobile purchases and pre-processing of select parts. In the long-term, the Board believes that the Hota 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

During the year under review, income tax expense of the Group amounted to HK$4.0 million (2010: HK$3.9 million).

As a result of the foregoing, profit attributable to the owners of the Company in 2011 amounted to HK$87.1 million, representing an increase of 545% as compared to HK$13.5 million in 2010.

Management Discussion and Analysis

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 with the completion of the Open Offer. As at 31 December 2011, the Group had cash and bank balances of HK$75.7 million, finance leases payable of HK$0.7 million and a secured bank loan of HK$37.5 million.

As at 31 December 2011, the Group had current assets of HK$283.8 million and current liabilities of HK$69.8 million. The current ratio, expressed as current assets over current liabilities, was maintained at a satisfactory level of 4.1.

EMPLOYEE INFORMATION

As at 31 December 2011, the Group employed a total of 488 employees, of which 15 were located in Hong Kong and the rest were located in the PRC. Employee cost, including directors' remuneration, was HK$32.2 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 2011. 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 2011.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in the "Business and Operation Review" section, 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".

Management Discussion and Analysis

CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

At 31 December 2011, certain machinery and equipment with the carrying amounts of HK$3,108,409 were pledged by the Company's subsidiaries as collaterals to secure general banking facilities granted to the Group. A bank deposit with the carrying amount of HK$17,406,252 as at 31 December 2011 was pledged to secure a transaction of purchasing scrap automobiles.

The Company and its subsidiaries have provided guarantees of repayment in respect of the facilities for bank loans and finance leases of the Group amounting to HK$69,000,000 (2010: HK$56,406,776), of which HK$38,207,657 (2010: HK$20,956,851) was utilised and outstanding as at 31 December 2011.

GEARING RATIO

The gearing ratio of the Group, expressed as a percentage of total borrowings to total assets of the Group, was 7.8% as at 31 December 2011 (2010: 7.2%). Accordingly, the financial position of the Group remains very liquid.

FINAL DIVIDEND

The Directors recommend the payment of a final dividend of 0.2 HK cents per share (2010: 0.4 HK cents) for the year ended 31 December 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 2011.

The Group's results for the year ended 31 December 2011 have been reviewed by the audit committee.

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 year of 2011, 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 section headed "Corporate Governance Report" below.

COMPETING INTERESTS

As at 31 December 2011, 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 2011, the Company repurchased a total of 8,355,000 of its own shares on the Stock Exchange at an aggregate consideration (before expenses) of HK$3,828,625. All the repurchased shares were subsequently cancelled.

Particulars of the repurchases are as follows:

Date of repurchase	No. of Shares	Price per share Highest HK$	Price per share Lowest HK$	Aggregate price HK$
August	2,000,000	0.490	0.485	978,825
September	5,755,000	0.500	0.420	2,586,325
October	600,000	0.440	0.435	263,475
TOTAL	8,355,000			3,828,625

The repurchases were made for the benefit of the Company and its shareholders as a whole with a view to enhancing the earnings per share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities during the year.

ANNUAL GENERAL MEETING

The annual general meeting (the "AGM") of the shareholders of the Company will be held at 9:15 a.m., on Thursday, 10 May 2012, 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

In order to ascertain the entitlements to attend the AGM, the register of members of the Company will be closed from Tuesday, 8 May 2012 to Thursday, 10 May 2012 (both dates inclusive) during which period no transfer of shares of the Company will be registered. In order to qualify for attending the AGM, all properly completed transfer forms accompanied by the relevant share certificates 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 Monday, 7 May 2012.

Management Discussion and Analysis

The last day for dealing in shares cum entitlements to the proposed final dividend for the year ended 31 December 2011 will be on Friday, 11 May 2012. In order to ascertain the entitlements to receive the proposed final dividend for the year ended 31 December 2011, the register of members of the Company will be closed from Wednesday, 16 May 2012 to Friday, 18 May 2012 (both dates inclusive) during which period no transfer of shares of the Company will be registered. In order to qualify for the proposed final dividend for the year ended 31 December 2011, all properly completed transfer forms accompanied by the relevant share certificates 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, 15 May 2012.

Corporate Governance Report

The Board is pleased to present this Corporate Governance Report for the year ended 31 December 2011.

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 2011 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 four executive Directors and three independent non-executive Directors whose biographical details are set out on pages 18 to 19 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.

Corporate Governance Report

The Board held a full board meeting in each quarter. The attendances of the Board meetings for the year ended 31 December 2011 are as follows:

Members	Attendance
Mr. Chan Siu Wing, Raymond	4/4
Mr. Chang Wei Wen	4/4
Ms. Leung Quan Yue, Michelle	0/4
Mr. Leung Ka Kui, Johnny	1/4
Ms. Lily Wu	4/4
Mr. Yang Meng Hsiu	4/4
Ms. Wong Ka Wai, Jeanne	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 2011.

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.

Corporate Governance Report

AUDITORS' REMUNERATION

During the year ended 31 December 2011, 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	420
Non-audit services Taxation compliance services	21

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	1/4
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 2011 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 2011, 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 26 to 27.

Profiles of Directors and Senior Management

EXECUTIVE DIRECTORS

Lily WU, aged 48, is an executive Director and the Chairman of the Company. She was appointed as Director of the Company in June 2005. Ms. Wu has 25 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 46, 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 35, 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 35, 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 6 years of experience in product planning and brand name marketing business.

Profiles of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

LEUNG Ka Kui Johnny, aged 55, 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 27 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 and Celestial Asia Securities Holdings Limited, companies whose shares are listed on the main board of the Stock Exchange. 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 47, 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 24 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 47, is an independent non-executive Director. Mr. Chan has over 20 years of experience in the field of accounting, taxation, finance and trust. He is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants, a Certified Practising Accountant of CPA Australia, and a founding member of the Macau Society of Certified Practising Accountants. Mr. Chan holds a Bachelor of Economics degree from the University of Sydney. Mr. Chan holds the position of executive director of ENM Holdings Limited and independent non-executive director of China Flooring Holding Company Limited, both companies whose shares are listed on the main board of the Stock Exchange. Mr. Chan was formerly an independent non-executive director of each of Karce International Holdings Limited and Prosperity Investment Holdings Limited, both companies whose shares are listed on the main board of the Stock Exchange. Mr. Chan was also an independent non-executive director of each of Pan Asia Mining Limited, a company whose shares are listed on GEM, and Orient Energy and Logistics Holdings Limited, a company whose shares are listed on the Frankfurt Stock Exchange. Mr. Chan joined the company in February 2007.

SENIOR MANAGEMENT

LAU Ka Chung, aged 39, is the financial controller and the Company Secretary of the Group. Mr. Lau has over 15 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 2011.

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 21 to the financial statements.

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income on page 28.

The Directors recommend the payment of a final dividend of 0.2 HK cents per share *(2010: 0.4 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 34 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

Independent non-executive Directors
Chan Siu Wing, Raymond
Leung Ka Kui, Johnny
Wong Ka Wai, Jeanne

In accordance with Article 87(1) of the Articles of Association, Mr. Chan Siu Wing, Raymond, Mr. Chang Wei Wen and Mr. Leung Ka Kui, Johnny 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 19 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 32 and 33 to the financial statements.

DISTRIBUTABLE RESERVES

The Company's reserve available for distribution represents the contributed surplus, other reserves and accumulated profits. At the balance sheet date, the Company had HK$228,112,504 reserves available for distribution.

Directors' Report

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

As at 31 December 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 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	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. These include 5,000,000 Share Options conferring rights to subscribe for 5,000,000 Shares.

2. These include 2,500,000 Share Options conferring rights to subscribe for 2,500,000 Shares.

Save as disclosed above, as at 31 December 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 Rules 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2011, 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	498,970,125	16.48
Best Heaven Limited *(Note 1)*	Beneficial	Long	311,050,000	10.28
Mr. Tsai Chi Yuan *(Note 1)*	Interests in controlled company	Long	810,020,125	26.76

Note:

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 and Best Heaven Limited.

Save as disclosed above, as at 31 December 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 carrying rights to vote in all circumstances at general meetings of any other member of the Group.

Directors' Report

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	33%
– five largest customers in aggregate	82%

Purchases

– the largest supplier	38%
– five largest suppliers in aggregate	77%

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.

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 106 of the annual report.

AUDITORS

The financial statements for the year ended 31 December 2009 were audited by Grant Thornton Hong Kong ("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 and 2011 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, 23 March 2012

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To the shareholders of Phoenitron Holdings Limited 品創控股有限公司
(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 28 to 105, which comprise the consolidated and the company statements of financial position as at 31 December 2011, 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.

AUDITOR'S RESPONSIBILITY

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

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

AUDITOR'S RESPONSIBILITY (Continued)

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 2011 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, 23 March 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Notes	2011 HK$	2010 HK$ (Restated)
Revenue	6	**139,172,687**	152,604,376
Cost of sales		**(102,812,927)**	(112,448,983)
Gross profit		**36,359,760**	40,155,393
Other income	7	**16,361,860**	8,036,755
Fair value gain/(loss) on a financial derivative	23(a)	**116,942,154**	(2,928,235)
Other gains and losses	8	**27,421,442**	(756,197)
Selling and distribution costs		**(6,229,901)**	(5,489,606)
Administrative expenses		**(25,314,778)**	(20,704,852)
Finance costs	9	**(713,242)**	(527,821)
Share of losses of a jointly controlled entity		**(73,798,214)**	(346,924)
Profit before income tax	10	**91,029,081**	17,438,513
Income tax expense	11	**(3,958,610)**	(3,942,871)
Profit for the year	12	**87,070,471**	13,495,642
Other comprehensive income			
Changes in fair value of available-for-sale financial assets		**6,536,693**	2,058,355
Exchange gain on translation of financial statements of foreign operations		**3,759,782**	1,938,169
Other comprehensive income for the year		**10,296,475**	3,996,524
Total comprehensive income for the year		**97,366,946**	17,492,166
		HK cents	HK cents
Earnings per share	14		
– Basic		**2.924**	0.537
– Diluted		**2.919**	0.507

Consolidated Statement of Financial Position

As at 31 December 2011

	Notes	2011 HK$	2010 HK$
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	19	24,437,000	26,431,378
Intangible assets	20	420,000	420,000
Prepayments for acquisition of property, plant and equipment		29,027,964	–
Interest in an associate	22	1,135,136	1,135,136
Long-term financial assets	23	153,985,702	83,680,030
		209,005,802	111,666,544
Current assets			
Inventories	24	5,114,610	6,280,020
Trade and other receivables	25	70,297,961	57,521,989
Amount due from a jointly controlled entity	26	132,611,520	67,103,364
Pledged bank deposits	27	17,406,252	927,117
Cash and cash equivalents	28	58,320,328	47,340,764
		283,750,671	179,173,254
Current liabilities			
Trade and other payables	29	30,272,197	26,532,929
Borrowings	30	37,785,759	20,956,851
Current tax liabilities		1,776,150	377,912
		69,834,106	47,867,692
Net current assets		213,916,565	131,305,562
Total assets less current liabilities		422,922,367	242,972,106
Non-current liabilities			
Borrowings	30	421,898	–
Deferred tax liabilities	31	4,707	4,707
		426,605	4,707
Net assets		422,495,762	242,967,399
EQUITY			
Share capital	32	60,544,100	55,192,000
Reserves	34	361,951,662	187,775,399
Total equity		422,495,762	242,967,399

Lily Wu
Director

Chang Wei Wen
Director

Statement of Financial Position

As at 31 December 2011

	Notes	2011 HK$	2010 HK$
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	19	829,290	–
Interests in subsidiaries	21	146,541,080	107,788,247
		147,370,370	107,788,247
Current assets			
Other receivables		1,460,071	5,734,022
Amount due from a jointly controlled entity	26	132,611,520	67,103,364
Cash and cash equivalents	28	11,714,593	17,573,472
		145,786,184	90,410,858
Current liabilities			
Other payables		1,385,983	805,615
Current tax liabilities		1,753,959	115,937
		3,139,942	921,552
Net current assets		142,646,242	89,489,306
Total assets less current liabilities/Net assets		290,016,612	197,277,553
EQUITY			
Share capital	32	60,544,100	55,192,000
Reserves	34	229,472,512	142,085,553
Total equity		290,016,612	197,277,553

Lily Wu
Director

Chang Wei Wen
Director

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

		2011 HK$	2010 HK$
Cash flows from operating activities			
Profit before income tax		91,029,081	17,438,513
Adjustments for:			
Depreciation		11,300,183	13,615,899
Exchange difference, net		1,195,236	1,079,060
Fair value (gain)/loss on a financial derivative		(116,942,154)	2,928,235
Finance costs		713,242	527,821
Gain on disposal of property, plant and equipment		(77)	(376,297)
Gain on partial disposal of a jointly controlled entity		(29,315,437)	–
Interest income		(16,194,797)	(7,094,194)
Provision for impairment of trade receivables		390,902	–
Share of losses of a jointly controlled entity		73,798,214	346,924
Write down of inventories to net realisable value		598,187	382,949
Operating profit before working capital changes		16,572,580	28,848,910
Decrease in inventories		567,223	166,874
Increase in trade and other receivables		(3,511,767)	(10,769,984)
Increase/(Decrease) in trade and other payables		4,080,571	(31,750)
Cash generated from operations		17,708,607	18,214,050
Interest paid for bank loans		(664,057)	(392,567)
Income taxes paid		(2,115,207)	(4,884,771)
Net cash generated from operating activities		14,929,343	12,936,712
Cash flows from investing activities			
Interest received		356,963	1,332,144
Increase in amount due from a jointly controlled entity		(56,614,827)	(67,103,364)
Decrease/(Increase) in loan receivables		5,268,493	(5,268,493)
Increase in pledged bank deposits		(16,479,135)	(145)
Purchase of property, plant and equipment	*19*	(7,909,990)	(3,953,283)
Prepayments for acquisition of property, plant and equipment		(29,027,964)	–
Purchase of intangible assets		–	(420,000)
Proceeds from partial disposal of a jointly controlled entity	*25(c)*	364,400	–
Proceeds from disposal of property, plant and equipment		7,070	408,149
Net cash used in investing activities		(104,034,990)	(75,004,992)

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	2011 HK$	2010 HK$
Cash flows from financing activities		
Capital element of finance leases payments	**(1,616,714)**	(4,066,773)
Interest element of finance leases payments	**(49,185)**	(135,254)
Dividends paid	**(12,136,640)**	(7,354,500)
Proceeds from shares issued	**99,345,600**	70,438,500
Proceeds from new bank loans	**25,569,465**	22,346,324
Repayments of bank loans	**(6,741,794)**	(5,139,894)
Repurchase of shares	**(3,848,409)**	–
Share issue expenses	**(1,193,534)**	–
Net cash generated from financing activities	**99,328,789**	76,088,403
Net increase in cash and cash equivalents	**10,223,142**	14,020,123
Cash and cash equivalents at 1 January	**47,340,764**	32,949,818
Effect of foreign exchange rate changes	**756,422**	370,823
Cash and cash equivalents at 31 December	**58,320,328**	47,340,764

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	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$	Retained 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 13)	–	(7,354,500)	–	–	–	–	–	–	(7,354,500)
Issue of new shares upon exercise of share options (note 32(d))	120,000	2,084,006	(1,088,006)	–	–	–	–	–	1,116,000
Issue of shares upon exercise of non-listed warrants (note 32(e))	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									
– Change 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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	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$	Retained profits* HK$	Total HK$
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
2010 final dividend approved (note 13)	–	(12,142,240)	–	–	–	–	–	–	(12,142,240)
Issue of new shares upon open offer (note 32(b))	5,519,200	93,826,400	–	–	–	–	–	–	99,345,600
Expenses incurred in relation to issue of new shares	–	(1,193,534)	–	–	–	–	–	–	(1,193,534)
Repurchase of shares (note 32(c))	(167,100)	(3,681,309)	–	–	–	–	–	–	(3,848,409)
Transactions with owners	5,352,100	76,809,317	–	–	–	–	–	–	82,161,417
Profit for the year	–	–	–	–	–	–	–	87,070,471	87,070,471
Other comprehensive income									
– Change in fair value of available-for-sale financial assets	–	–	–	–	–	6,536,693	–	–	6,536,693
– Translation of foreign operations	–	–	–	–	3,759,782	–	–	–	3,759,782
Total comprehensive income for the year	–	–	–	–	3,759,782	6,536,693	–	87,070,471	97,366,946
At 31 December 2011	60,544,100	214,082,297	1,360,008	7	12,541,386	8,595,048	–	125,372,916	422,495,762

* The total of these accounts as at the reporting date represents "Reserves" in the consolidated statement of financial position.

Notes to the Financial Statements

For the year ended 31 December 2011

1. GENERAL INFORMATION

Phoenitron Holdings Limited (the "Company") is a public limited company incorporated in the Cayman Islands and its shares are listed on the Growth Enterprise Market 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. The Group has diversified its business into the provision of financial and management consultancy services. During the year, such services have been provided to its jointly controlled entity.

The financial statements for the year ended 31 December 2011 were approved for issued by the board of directors on 23 March 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These financial statements on pages 28 to 105 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 Growth Enterprise Market 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 basis except for certain financial assets which are measured at fair values. The measurement bases are fully described in the accounting policies below.

During the year, the directors of the Company have reviewed the nature of the Group's income and expenses and have decided to change the classification of certain income and expenses. Those income and expenses incurred for the year ended 31 December 2010 which have been restated include the following:

(i) reclassification of fair value loss on a derivative amounting to HK$2,928,235 from administrative expenses to "fair value loss on a financial derivative" on face of the consolidated statement of comprehensive income;

(ii) reclassification of exchange loss amounting to HK$1,132,494 from administrative expenses to other gains and losses; and

(iii) reclassification of gain on disposal of property, plant and equipment amounting to HK$376,297 from other income to other gains and losses.

The above reclassifications have no financial impact to the Group's consolidated statement of financial position, consolidated statement of cash flows and consolidated statement of changes in equity.

Notes to the Financial Statements

For the year ended 31 December 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

It should be noted that accounting estimates and assumptions are used in the preparation of 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.

2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (note 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. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the assets transferred, in which case the loss is recognised in profit or loss. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

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 (note 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 of a year 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. The Group's share of the post-acquisition reserves of the associate of jointly controlled equity is included in the respective reserves of the Group.

Profits and losses arising 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 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 including long-term interests which are in substance investments, 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.

Notes to the Financial Statements

For the year ended 31 December 2011

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.

When a foreign operation is disposed, accumulated exchange differences recognised in the translation reserve relating to that foreign operation up to the date of disposal are reclassified from equity to profit or loss as part of the gain or loss on disposal.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Property, plant and equipment (Continued)

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.

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 intangible assets. All other development costs are expensed as incurred.

Notes to the Financial Statements

For the year ended 31 December 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 directly attributable transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Financial assets (Continued)

(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 note 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.

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.

Impairment of financial assets

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.

Notes to the Financial Statements

For the year ended 31 December 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Financial assets (Continued)

Impairment of financial assets (Continued)

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

If 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 the 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)

Impairment of 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 lease liabilities. They are financial liabilities carried at amortised costs and 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.

Notes to the Financial Statements

For the year ended 31 December 2011

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.

Notes to the Financial Statements

For the year ended 31 December 2011

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 and other income 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 other income can be measured reliably, revenue and other income 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 from providing financial and management consultancy 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.

In respect of non-financial assets other than goodwill, 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 amortization, 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.

Notes to the Financial Statements

For the year ended 31 December 2011

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 share premium. 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 Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of reporting period.

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

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

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.

Notes to the Financial Statements

For the year ended 31 December 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Related parties

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

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

(ii) has significant influence over the Group; or

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

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

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

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

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

3. ADOPTION OF NEW OR REVISED HKFRSs

(a) Adoption of new/revised HKFRSs – effective 1 January 2011

In the current year, the Group has applied for the first time the following new standards, amendments 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 2011:

HKAS 24 (Revised)	Related Party Disclosures
HKFRSs (Amendments)	Improvements to HKFRSs 2010

Except as explained below, the adoption of new/revised HKFRSs has no material impact on the Group's financial statements.

HKFRS 7 (Amendments) – Financial Instruments: Disclosures

As part of the Improvements to HKFRSs issued in 2010, HKFRS 7 has been amended to enhance the interaction between quantitative and qualitative disclosures. If the carrying amount of a financial asset best represents the maximum exposure to credit risk, the standard does not require a positive statement to this effect in the financial statements. This amended disclosure requirement has been applied retrospectively. The carrying amounts of the Group's loans and receivables and bank balances represent the Group's maximum exposure to credit risk in respect of these financial assets as at 31 December 2011 and 2010. The prior year financial statements included a positive statement to this effect which is removed in the 2011 financial statements following the amendments. The adoption of the amendments has no impact on the Group's reported profit or loss, total comprehensive income or equity for any period presented.

HKAS 24 (Revised) – Related Party Disclosures

HKAS 24 (Revised) amends the definition of related party and clarifies its meaning. This may result in changes to those parties who are identified as being related parties of the reporting entity. The Group has revised its accounting policy for the identification of its related parties and has reassessed counterparties of transactions in accordance with the revised definition. The reassessment did not result in new related parties being identified. Related parties identified in prior years remain unchanged under the new accounting policy and the Group concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous years.

HKAS 24 (Revised) also introduces simplified disclosure requirements applicable to related party transactions where the Group and the counterparty are under the common control, joint control or significant influence of a government, government agency or similar body. These new disclosures are not relevant to the Group because the Group is not a government related entity.

Notes to the Financial Statements

For the year ended 31 December 2011

3. ADOPTION OF NEW OR REVISED HKFRSs (Continued)

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

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

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets [1]
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets [2]
Amendments to HKAS 1 (Revised)	Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income [3]
Amendments to HKAS 32	Presentation – Offsetting Financial Assets and Financial Liabilities [5]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities [4]
HKAS 19 (2011)	Employee Benefits [4]
HKAS 27 (2011)	Separate Financial Statements [4]
HKAS 28 (2011)	Investments in Associates and Joint Ventures [4]
HKFRS 9	Financial Instruments [6]
HKFRS 10	Consolidated Financial Statements [4]
HKFRS 11	Joint Arrangements [4]
HKFRS 12	Disclosure of Interests in Other Entities [4]
HKFRS 13	Fair Value Measurements [4]

[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 July 2012
[4] Effective for annual periods beginning on or after 1 January 2013
[5] Effective for annual periods beginning on or after 1 January 2014
[6] Effective for annual periods beginning on or after 1 January 2015

Amendments to HKFRS 7 Disclosure – Transfer of Financial Assets

The amendments to HKFRS 7 improve the derecognition disclosure requirements for transfer transactions of financial assets and allow users of financial statements to better understand the possible effects of any risks that may remain with the entity on transferred assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

Amendments to HKAS 12 Deferred Tax – Recovery of Underlying Assets

The amendments to HKAS 12 introduce a rebuttable presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The amendment will be applied retrospectively.

3. ADOPTION OF NEW OR REVISED HKFRSs (Continued)

(b) New/revised HKFRSs that have been issued but not yet effective (Continued)

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

The amendments to HKAS 1 (Revised) require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit and loss in the future (e.g. revaluations of available-for-sale financial assets) and those that may not (e.g. revaluations of property, plant and equipment). Tax on items of other comprehensive income is allocated and disclosed on the same basis. The amendments will be applied retrospectively.

HKFRS 9 Financial Instruments

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortized cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains and losses will be recognized in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognize the gains and losses in other comprehensive income. This aims to improve and simply the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option. For these fair value option liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the fair value option are scoped out of the Additions. HKAS 39 is aimed to be replaced by HKFRS 9 in its entirely. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues apply. The Group expects to adoption HKFRS 9 from 1 January 2015.

Notes to the Financial Statements

For the year ended 31 December 2011

3. ADOPTION OF NEW OR REVISED HKFRSs (Continued)

(b) New/revised HKFRSs that have been issued but not yet effective (Continued)

HKFRS 10 Consolidated Financial Statements

HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them. The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The implementation of HKFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing HKAS 27 on other consolidation related matters are carried forward unchanged. HKFRS 10 is applied retrospectively subject to certain transitional provisions.

HKFRS 11 Joint Arrangements

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC) – 31 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. Joint arrangements under HKFRS 11 have the same basic characteristics as joint ventures under HKAS 31. Joint arrangements are classified as either joint operations or joint ventures. Where the Group has rights to the assets and obligations for the liabilities of the joint arrangement, it is regarded as a joint operator and will recognize its interests in the assets, liabilities, income and expenses arising from the joint arrangement. Where the Group has rights to the net assets of the joint arrangement as a whole, it is regarded as having an interest in a joint venture and will apply the equity method of accounting. HKFRS 11 does not allow proportionate consolidation. In an arrangement structured through a separate vehicle, all relevant facts and circumstances should be considered to determine whether the parties to the arrangement have rights to the net assets of the arrangement. Previously, the existence of a separate legal entity was the key factor in determining the existence of a jointly controlled entity under HKAS 31. HKFRS 11 will be applied retrospectively with specific restatement requirements for a joint venture which changes from proportionate consolidation to the equity method and a joint operation which changes from equity method to accounting for assets and liabilities.

3. ADOPTION OF NEW OR REVISED HKFRSs (Continued)

(b) New/revised HKFRSs that have been issued but not yet effective (Continued)

HKFRS 12 Disclosure of Interests in Other Entities

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

HKFRS 13 Fair Value Measurements

HKFRS 13 provides a single source of guidance on how to measure fair value when it is required or permitted by other standards. The standard applies to both financial and non-financial items measured at fair value and introduces a fair value measurement hierarchy. The definitions of the three levels in this measurement hierarchy are generally consistent with HKFRS 7 *Financial Instruments: Disclosures*. HKFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The standard removes the requirement to use bid and ask prices for financial assets and liabilities quoted in an active market. Rather the price within the bid-ask spread that is most representative of fair value in the circumstances should be used. It also contains extensive disclosure requirements to allow users of the financial statements to assess the methods and inputs used in measuring fair values and the effects of fair value measurements on the financial statements. HKFRS 13 can be adopted early and is applied prospectively.

The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs.

Notes to the Financial Statements

For the year ended 31 December 2011

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 operating segments are reported in a manner consistent with the way in which information is reported internally to the executive directors for the purposes of resources allocation and assessment of segment performance. In the past, the directors regarded that the Group operated in one single business segment i.e. manufacturing and sales of smart cards, plastic cards and smart card application systems, and information reported in the financial statements was identical to those used regularly by the directors for the purpose of resource allocation and assessment of the Group's performance as a whole. However, during the year, the directors have reviewed the operations of the Group based on its products and services and have accordingly identified three reportable operating segments as follows:

- Sales of smart cards and plastic cards;
- Sales of smart cards application systems; and
- Financial and management consultancy services.

The financial and management consultancy services are provided to the jointly controlled entity of the Group which is principally engaged in resources recycling business. This is a new line of business for the Group during the year.

Each of these operating segments is managed separately as each of the product and service lines requires different resources as well as marketing approaches.

As a result of the changes in information reported internally for the purpose of resources allocation and assessment of business performance, the comparative figures in the segment information for the year ended 31 December 2010 have been restated in order to conform to the current year's presentation.

Revenue and expenses are allocated to the reportable segments with reference to sales generated and the expenses incurred by those segments. The measurement of segment profit or loss is the same as those used in preparing these financial statements under HKFRSs except that finance costs, income tax, share of results of jointly controlled entity, corporate income and expenses and other income and expenses not directly attributable to business activities of the operating segments are not included in arriving at the operating results of the operating segments.

Segment assets include all assets with the exception of intangible assets, interest in an associate, long-term financial assets, tax assets, assets which are not attributable to the business activities of the operating segments and other assets which are managed on a group basis such as cash and bank deposits.

Segment liabilities include all liabilities except for tax liabilities, liabilities which are not attributable to the business activities of the operating segments and other liabilities which are managed on a group basis such as borrowings.

Notes to the Financial Statements

For the year ended 31 December 2011

5. SEGMENT INFORMATION (Continued)

Segment results, segment assets and segment liabilities

Information regarding the Group's reportable segments including the reconciliation to revenue, profit before income tax, total assets, total liabilities and other segment information are as follows:

2011

	Sales of smart cards and plastic cards HK$	Sales of smart card application system HK$	Financial and management consultancy services HK$	Corporate/ Unallocated HK$	Consolidated HK$
Reportable segment revenue	134,714,436	277,599	4,180,652	–	139,172,687
Reportable segment profit/(loss)	7,618,473	(585,646)	11,086,651	–	18,119,478
Gain on partial disposal of a jointly controlled entity					29,315,437
Fair value gain on a financial derivative					116,942,154
Finance costs					(713,242)
Share of losses of a jointly controlled entity					(73,798,214)
Unallocated interest income					7,301,468
Corporate expenses, net					(6,138,000)
Profit before income tax					91,029,081

Notes to the Financial Statements

For the year ended 31 December 2011

5. SEGMENT INFORMATION (Continued)

Segment results, segment assets and segment liabilities (Continued)

2011

	Sales of smart cards and plastic cards HK$	Sales of smart card application system HK$	Financial and management consultancy services HK$	Corporate/ Unallocated HK$	Consolidated HK$
					Total HK$
Reportable segment assets	112,056,308	8,266	134,900,881	–	246,965,455
Interest in an associate					1,135,136
Long-term financial assets					153,985,702
Intangible assets					420,000
Proceed receivable from partial disposal of jointly controlled entity					14,523,600
Pledged deposits					17,406,252
Bank balances and cash					58,320,328
Total consolidated assets					492,756,473
Reportable segment liabilities	28,826,714	59,500	1,385,983	–	30,272,197
Borrowings					38,207,657
Current tax liabilities					1,776,150
Deferred tax liabilities					4,707
Total consolidated liabilities					70,260,711
					Consolidated HK$
Other information					
Depreciation	10,074,178	1,117,158	108,847	–	11,300,183
Interest income	–	–	8,893,329	7,301,468	16,194,797
Write down of inventories to net realisable value	570,424	27,763	–	–	598,187
Provision for impairment on trade receivables	205,296	185,606	–	–	390,902
Additions to specified non-current assets	36,908,664	–	829,290	–	37,737,954

Notes to the Financial Statements

For the year ended 31 December 2011

5. SEGMENT INFORMATION (Continued)

Segment results, segment assets and segment liabilities (Continued)

2010

	Sales of smart cards and plastic cards HK$	Sales of smart card application system HK$	Financial and management consultancy services HK$	Corporate/ Unallocated HK$	Consolidated HK$
Reportable segment revenue	152,560,656	43,720	–	–	152,604,376
Reportable segment profit/(loss)	16,185,896	(9,964)	974,164	–	17,150,096
Fair value loss on a financial derivative					(2,928,235)
Finance costs					(527,821)
Share of losses of a jointly controlled entity					(346,924)
Unallocated interest income					6,120,030
Corporate expenses, net					(2,028,633)
Profit before income tax					17,438,513

Notes to the Financial Statements

For the year ended 31 December 2011

5. SEGMENT INFORMATION (Continued)

Segment results, segment assets and segment liabilities (Continued)

2010

	Sales of smart cards and plastic cards HK$	Sales of smart card application system HK$	Financial and management consultancy services HK$	Corporate/ Unallocated HK$	Consolidated HK$
					Total HK$
Reportable segment assets	84,119,180	845,714	67,103,364	–	152,068,258
Interest in an associate					1,135,136
Long-term financial assets					83,680,030
Intangible assets					420,000
Loan receivable					5,268,493
Pledged deposits					927,117
Bank balances and cash					47,340,764
Total consolidated assets					290,839,798
Reportable segment liabilities	26,141,505	44,500	–	–	26,186,005
Borrowings					20,956,851
Current tax liabilities					377,912
Deferred tax liabilities					4,707
Other liabilities					346,924
Total consolidated liabilities					47,872,399
					Consolidated HK$
Other information					
Depreciation	13,615,620	279	–	–	13,615,899
Interest income	–	–	974,164	6,120,030	7,094,194
Write down of inventories to net realisable value	382,949	–	–	–	382,949
Additions to specified non-current assets	3,953,283	–	–	–	3,953,283

5. SEGMENT INFORMATION (Continued)

Segment results, segment assets and segment liabilities (Continued)

There has been no inter-segment sale between different business segments during the year or in prior year.

Specified non-current assets include property, plant and equipment, intangible assets and interest in associate.

Geographical information

The following table presents the revenue from external customers for the reporting period and the specified non-current assets by geographical locations as at the reporting date.

	Revenue from external customers		Specified non-current assets	
	2011	2010	**2011**	2010
	HK$	HK$	**HK$**	HK$
Asia (Excluding Hong Kong and PRC)	**37,535,925**	55,418,784	**–**	–
Africa	**9,497,392**	179,360	**–**	–
Europe	**48,464,437**	44,344,936	**–**	–
Hong Kong	**830,917**	559,493	**2,555,697**	15,117,379
PRC, excluding Hong Kong	**38,594,424**	52,050,203	**52,464,403**	12,869,135
Others	**4,249,592**	51,600	**–**	–
Total	**139,172,687**	152,604,376	**55,020,100**	27,986,514

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 is as follows:

	2011	2010
	HK$	HK$
Customer A	**45,558,673**	44,071,068
Customer B	**26,648,273**	38,407,757
Customer C	**7,148,544**	22,909,637
Customer D	**11,801,113**	14,944,793
Customer E	**19,882,283**	12,147,035

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:

	2011 HK$	2010 HK$
Sales of smart cards and plastic cards	134,714,436	152,560,656
Sales of smart card application systems	277,599	42,870
Service income	4,180,652	850
	139,172,687	152,604,376

7. OTHER INCOME

	2011 HK$	2010 HK$ (Restated)
Handling fee income	–	254,200
Interest income (note)	16,194,797	7,094,194
Sundry income	167,063	688,361
	16,361,860	8,036,755

Note: Interest income comprises interest income arising from amount due from a jointly-controlled entity (note 26), loan receivable (note 25(b)) and bank deposits of HK$9,250,292 (2010: HK$1,332,144) in aggregate which are financial assets not at fair value through profit or loss, as well as interest income arising from amortisation of available-for-sale financial assets (note 23(a)) of HK$6,944,505 (2010: HK$5,762,050).

Notes to the Financial Statements

For the year ended 31 December 2011

8. OTHER GAINS AND LOSSES

	2011 HK$	2010 HK$ (Restated)
Gain on partial disposal of a jointly controlled entity (note 23 (a))	29,315,437	–
Gain on disposal of property, plant and equipment	77	376,297
Exchange losses, net	(1,894,072)	(1,132,494)
	27,421,442	(756,197)

9. FINANCE COSTS

	2011 HK$	2010 HK$
Interest charges on bank loans wholly repayable within five years (note)	664,057	392,567
Interest element of finance lease payments	49,185	135,254
	713,242	527,821

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 2011 and 2010, interest charges on bank borrowings which contain a repayment on demand clause amounted to HK$569,812 and HK$330,230 respectively.

10. PROFIT BEFORE INCOME TAX

	2011 HK$	2010 HK$
Profit before income tax is arrived at after charging:		
Auditors' remuneration	455,650	417,000
Bad debts written off	–	37,285
Costs of inventories recognised as expenses	102,812,927	112,448,983
Depreciation		
– Owned assets	11,183,437	10,954,746
– Leased assets	116,746	2,661,153
	11,300,183	13,615,899
Employee benefit expenses (note 15)	32,236,594	29,611,098
Operating lease charges on land and buildings	6,981,244	4,083,701
Provision for impairment on trade receivables	390,902	–
Research and development costs	85,149	161,634
Write down of inventories to net realisable value[1]	598,187	382,949

[1] included in cost of inventories recognised as expenses

11. INCOME TAX EXPENSE

	2011 HK$	2010 HK$
Current tax		
Hong Kong Profits Tax:		
Current year	3,952,579	1,170,937
Under provision in prior year	6,031	–
	3,958,610	1,170,937
PRC Enterprise Income Tax		
Current year	–	2,769,171
Under provision in prior year	–	2,763
	–	2,771,934
Total income tax expense	3,958,610	3,942,871

Notes to the Financial Statements

For the year ended 31 December 2011

11. INCOME TAX EXPENSE (Continued)

Hong Kong Profits Tax has been provided at the rate of 16.5% (2010: 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. No provision for PRC Enterprise Income Tax ("EIT") has been made for the year as the subsidiaries sustained tax losses during the year.

Pursuant to the income tax rules and regulations of the PRC, the subsidiaries in the PRC are liable to EIT at the rate of 25% (2010: 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.

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

	2011 HK$	2010 HK$
Profit before income tax	91,029,081	17,438,513
Income tax at Hong Kong Profits Tax rate of 16.5% (2010: 16.5%)	15,019,797	2,877,355
Effect of different tax rates of subsidiaries operating in other jurisdictions	(417,352)	319,335
Tax effect of non-deductible expenses	13,929,872	2,016,024
Tax effect of non-taxable income	(25,489,453)	(1,200,139)
Tax effect of tax losses not recognised	573,552	94,373
Tax effect of other temporary differences not recognised	125,928	–
Utilisation of tax losses previously not recognised	–	(215,074)
Under provision in prior year	6,031	2,763
Others	210,235	48,234
Income tax expense	3,958,610	3,942,871

12. PROFIT FOR THE YEAR

Of the consolidated profit for the year, a profit of HK$10,577,642 (2010: HK$1,355,310) has been dealt with in the financial statements of the Company.

13. DIVIDENDS

(a) Dividends attributable to the year

	2011 HK$	2010 HK$
Proposed final dividend of HK0.2 cents (2010: HK0.4 cents) per share	6,046,350	12,142,240

The final dividend proposed after the reporting period has not been recognised.

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

	2011 HK$	2010 HK$
Final dividend in respect of the previous financial year of HK0.4 cents (2010: HK1.5 cents) per share	12,142,240	7,354,500

14. 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$87,070,471 (2010: HK$13,495,642) and the weighted average of 2,978,100,507 (2010: 2,513,317,535) ordinary shares in issue during the year, as adjusted for the Share Sub-division as defined and disclosed in note 32(a) as if it had occurred on 1 January 2010.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit for the year of HK$87,070,471 (2010: HK$13,495,642) and the weighted average of 2,983,001,208 (2010: 2,664,170,657) ordinary shares, calculated as follows:

	2011	2010
Weighted average number of ordinary shares used in the calculation of basic earnings per share	2,978,100,507	2,513,317,535
Effect of deemed issue of shares under the Company's share option scheme	4,900,701	6,101,260
Effect of deemed issue of shares on exercise of warrants	–	144,751,862
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	2,983,001,208	2,664,170,657

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15. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	2011 HK$	2010 HK$
Salaries, wages and other benefits	29,666,915	27,271,959
Contributions to defined contribution retirement plans	2,569,679	2,339,139
	32,236,594	29,611,098

16. DIRECTORS' REMUNERATION

Directors' emoluments for the years ended 31 December 2011 and 2010 are as follows:

2011

Name	Fee HK$	Salaries, allowances and benefits in kind HK$	Discretionary bonus* HK$	Retirement scheme contributions HK$	Total HK$
Executive Directors:					
Lily Wu	–	280,657	399,244	12,000	691,901
Leung Quan Yue, Michelle	–	120,000	–	6,000	126,000
Chang Wei Wen	–	963,048	462,397	21,000	1,446,445
Yang Meng Hsiu (note)	–	96,774	–	4,839	101,613
	–	1,460,479	861,641	43,839	2,365,959
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	1,460,479	861,641	43,839	2,545,959

16. DIRECTORS' REMUNERATION (Continued)

2010

Name	Fee HK$	Salaries, allowances and benefits in kind HK$	Discretionary bonus 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

* The discretionary bonus is performance related with the basis determined by the Group's board of directors.

Note: Mr. Yang Meng Hsiu was appointed as executive director on 11 March 2011.

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 (2010: nil).

There was no arrangements under which a director waived or agreed to waive any emoluments during the year (2010: nil).

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For the year ended 31 December 2011

17. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals include two (2010: one) director(s) whose remuneration is disclosed in note 16. The aggregate emoluments of the remaining three (2010: four) highest paid individuals are as follows:

	2011 HK$	2010 HK$
Salaries and allowances	2,167,131	2,372,988
Contributions to retirement scheme	36,000	48,000
	2,203,131	2,420,988

The emoluments fell within the following bands:

	Number of individuals 2011	2010
Emolument bands		
Nil – HK$1,000,000	2	4
HK$1,000,001 – HK$1,500,000	1	–

18. 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$2,569,679 (2010: HK$2,339,139). No forfeited contribution is available for offset against existing contributions during the reporting period (2010: nil).

Notes to the Financial Statements

For the year ended 31 December 2011

19. PROPERTY, PLANT AND EQUIPMENT

The Group

	Printing and testing equipment HK$	Office equipment HK$	Furniture and fixtures HK$	Leasehold improvements HK$	Motor vehicles HK$	Total HK$
At 1 January 2010						
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
Year ended 31 December 2011						
Opening net book amount	23,092,429	664,853	837,654	722,300	1,114,142	26,431,378
Additions	6,377,142	499,607	393,428	564,213	875,600	8,709,990
Disposals	–	(6,993)	–	–	–	(6,993)
Depreciation	(9,858,756)	(331,397)	(294,168)	(339,459)	(476,403)	(11,300,183)
Exchange differences	495,438	22,920	34,515	25,262	24,673	602,808
Closing net book amount	20,106,253	848,990	971,429	972,316	1,538,012	24,437,000
At 31 December 2011						
Cost	89,740,528	3,143,208	3,966,084	4,990,842	2,952,736	104,793,398
Accumulated depreciation	(69,634,275)	(2,294,218)	(2,994,655)	(4,018,526)	(1,414,724)	(80,356,398)
Net book amount	20,106,253	848,990	971,429	972,316	1,538,012	24,437,000

Notes to the Financial Statements

For the year ended 31 December 2011

19. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group (Continued)

As at 31 December 2011, a motor vehicle with net book value of HK$758,853 had been held under finance lease. The capital value of the motor vehicle at the inception of lease amounted to HK$800,000.

As at 31 December 2010, printing and testing equipment with net book value of HK$6,567,902 were held under finance leases.

Certain machinery and equipment are pledged for the Group's bank facilities as further detailed in note 36.

The Company

	Office equipment HK$	Furniture and fixtures HK$	Leasehold improvements HK$	Total HK$
Year ended 31 December 2011				
Opening net book amount	–	–	–	–
Additions	113,681	260,244	564,212	938,137
Depreciation	(13,006)	(30,362)	(65,479)	(108,847)
Closing net book amount	100,675	229,882	498,733	829,290
At 31 December 2011				
Cost	113,681	260,244	564,212	938,137
Accumulated depreciation	(13,006)	(30,362)	(65,479)	(108,847)
Net book amount	100,675	229,882	498,733	829,290

20. INTANGIBLE ASSETS – GROUP

	China driving licence HK$
At 1 January, 31 December 2010 and 31 December 2011	
Cost	**420,000**
Accumulated impairment	**–**
Net book 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.

21. INTERESTS IN SUBSIDIARIES – COMPANY

	2011 HK$	2010 HK$
Unlisted shares, at cost	**26,954,990**	26,954,990
Amounts due from subsidiaries	**122,968,285**	84,215,452
Less: Provision for impairment	**(3,382,195)**	(3,382,195)
	146,541,080	107,788,247

The amounts due from the subsidiaries are unsecured, interest-free and have 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.

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For the year ended 31 December 2011

21. INTERESTS IN SUBSIDIARIES – COMPANY (Continued)

Details of the Company's subsidiaries, which are all wholly-owned, as at 31 December 2011 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
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
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
Jointop (H.K.) Limited	Hong Kong, limited liability company	HK$10,000 ordinary share	Investment holding
Marco Creation Holdings Limited	BVI, limited liability company	US$1 ordinary share	Investment holding
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
Si-Bond Holdings Limited	Hong Kong, limited liability company	HK$10,000 ordinary share	Investment holding
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 shares	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
北京萬利時智能科技有限公司	PRC, wholly-foreign-owned enterprises	HK$2,700,000	Smart card and plastic card manufacturing and sales
北京市思博智盛科技電子有限公司	PRC, wholly-foreign-owned enterprises	HK$5,700,000	Provision of IC module packaging and testing service

Notes to the Financial Statements

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21. INTERESTS IN SUBSIDIARIES – COMPANY (Continued)

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

None of the subsidiaries has issued any debt securities at the end of the year.

22. INTEREST IN AN ASSOCIATE – GROUP

	2011 HK$	2010 HK$
Share of net assets	**1,135,136**	1,135,136

Details of the Group's associate as at 31 December 2011 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:

	2011 HK$	2010 HK$
Assets	**6,825,050**	6,676,900
Liabilities	**(104,529)**	(234,305)
Revenue	**3,361,872**	3,929,412
Net profit	**35,786**	460,919

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

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23. LONG-TERM FINANCIAL ASSETS – GROUP

	2011 HK$	2010 HK$
Investment in Hota (USA) (note (a))	151,827,644	81,521,972
Investment in Guangzhou Tecsun (note (b))	2,158,058	2,158,058
	153,985,702	83,680,030

Notes:

(a) Hota (USA) Holding Corp. ("Hota (USA)") is an investment holding company incorporated in the United States of America. As at 31 December 2011, Hota (USA) had equity holdings in the entire issued share capital of 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 2011, the Group is interested in (i) 83.33% (2010: 83.33%) 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 (ii) 35.29% (2010: 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 2011, the Group is interested in 57.81% (2010: 62.19%) 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. The board of Hota (USA) comprised of 4 directors, 2 of whom were appointed by the Group. Accordingly, the directors regard Hota (USA) as a jointly-controlled entity of the Group.

The Group's investment in the Series A preferred shares of Hota (USA) is accounted for as an available-for-sale financial asset which is stated at fair value of HK$78,370,324 (2010: HK$64,889,126) as at 31 December 2011 with a derivative component arising from the conversion right of the Series A preferred shares which is stated at fair value of HK$133,575,000 (2010: HK$16,632,846) as at 31 December 2011.

The Group's investment in the common shares of Hota (USA) is accounted for as interest in a jointly controlled entity. For the year ended 31 December 2011, the Group's share of losses of Hota (USA) and its subsidiary (the "Hota Group") amounted to HK$73,798,214 (2010: HK$346,924). The losses are applied to and has reduced the Group's investment in the Series A preferred shares of Hota (USA) which are in substance part of the Group's long-term investment in Hota Group.

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

Notes: (Continued)

(a) (Continued)

	2011 HK$	2010 HK$
Available-for-sale financial asset:		
Investment in Series A preferred shares	78,370,324	64,889,126
Derivative component	133,575,000	16,632,846
	211,945,324	81,521,972
Interest in jointly controlled entity	(60,117,680)	–
	151,827,644	81,521,972

During the year, the Group disposed of 28,000 common shares of Hota (USA) to a third party (the "Partial Disposal") at a consideration of USD1,960,000 and has recognised a gain of HK$29,315,437.

Details of Hota (USA) and its principal subsidiary as at 31 December 2011 are as follows:

Name of company	Place of establishment	Particulars of paid-up registered capital	Percentage of ownership interest	Principal activities
Hota (USA)	USA	Common shares US Dollar ("USD") 34 Series A preferred shares USD 12,000,000	35.29% (2010: 43.53%) 83.33% (2010: 83.33%)	Investment holding
張家港永峰泰環保科技有限公司 (Hota Auto Recycling Corporation)*	PRC	USD20,000,000		Resources Recycling Business

* wholly-foreign-owned enterprise held by Hota (USA)

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

Notes: (Continued)

(a) (Continued)

The Resources Recycling Business has started trial production during the reporting period. Based on the current development, the Resources Recycling Business would commence its commercial production in 2012.

Hota Group has a reporting date of 31 December. The financial information of Hota Group, extracted from its management accounts which have been adjusted to ensure consistency in accounting policies as adopted by the Group, is as follows:

	2011 HK$	2010 HK$
Assets and liabilities:		
Non-current assets	314,983,676	145,715,071
Current assets	30,969,733	80,225,227
Current liabilities	(291,543,713)	(150,205,500)
Non-current liabilities	(264,129,060)	(111,551,782)
Net liabilities	(209,719,364)	(35,816,984)
Results:		
Income	2,163,416	4,171,630
Expenses	(171,697,563)	(13,735,339)
Net losses	(169,534,147)	(9,563,709)

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

23. 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.

	2011 HK$	2010 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 there is no quoted market price in active markets for the investment 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.

24. INVENTORIES – GROUP

	2011 HK$	2010 HK$
Raw materials	**2,845,035**	2,338,771
Work-in-progress	**1,725,452**	2,242,881
Finished goods	**544,123**	1,698,368
	5,114,610	6,280,020

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25. TRADE AND OTHER RECEIVABLES – GROUP AND COMPANY

	The Group		The Company	
	2011	2010	**2011**	2010
	HK$	HK$	**HK$**	HK$
Trade receivables	**37,206,700**	47,247,846	**–**	–
Less: Provision for impairment of trade receivables	**(390,902)**	–	**–**	–
Trade receivables, net (note (a))	**36,815,798**	47,247,846	**–**	–
Loan receivable (note (b))	**–**	5,268,493	**–**	5,268,493
Other receivables, deposits and prepayment (note (c))	**33,482,163**	5,005,650	**1,460,071**	465,529
	70,297,961	57,521,989	**1,460,071**	5,734,022

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 net of impairment provision is as follows:

	2011	2010
	HK$	HK$
0 – 30 days	**14,725,566**	19,687,499
31 – 90 days	**18,383,160**	20,995,587
Over 90 days	**3,707,072**	6,564,760
	36,815,798	47,247,846

At each reporting date, the Group reviews trade receivables for evidence of impairment on both an individual and collective basis. As at 31 December 2011, the Group's trade receivables of HK$390,902 which were aged over 120 days have been identified as impaired and accordingly, provision has been made in respect of these receivables. The Group did not hold any collateral as security or other credit enhancements over these impaired receivables.

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

	2011	2010
	HK$	HK$
Neither past due nor impaired	**21,879,642**	26,879,419
1 – 30 days past due	**7,322,814**	10,223,260
31 – 90 days past due	**5,726,932**	6,955,878
Over 90 days past due	**1,886,410**	3,189,289
	36,815,798	47,247,846

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

Notes: (Continued)

(a) (Continued)

Trade receivables that were neither past due nor impaired related to a number 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 as at 31 December 2010 was due from a third party company and was unsecured, interest-bearing at 10% per annum and repayable on demand. The loan has been fully repaid during the year.

(c) Other receivables include the outstanding consideration in relation to the Partial Disposal of Hota (USA) (note 23(a)) amounted to approximately USD1,862,000 (equivalent to HK$14,523,600). Pursuant to the purchase agreement, the outstanding consideration will be fully settled by 23 April 2012.

The directors of the Company 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.

26. 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$119,454,100 (2010: HK$65,875,000) (the "Loans") which is unsecured and interest-bearing at 10% per annum, the remaining balance due is unsecured and interest-free.

The Loans amounting to HK$48,524,020 as at 31 December 2011 have been matured and the remaining balances of HK$84,087,500 are repayable within one year. The Group is in negotiation with the jointly controlled entity to extend the repayment date of the Loans to a latter period.

The Group entered into a series of loan agreements with the jointly controlled entity with terms in relation to a possible capitalisation for the Loans, in case the jointly controlled entity failed to repay the Loans together with any interest accrued on due date. As at 31 December 2011 and update to the date of this report, no formal agreement has been signed in relation to the capitalisation of the Loans.

27. PLEDGED BANK DEPOSITS – GROUP

The deposits as at 31 December 2011 is interest-free and does not have specified maturity date. The pledged deposits as at 31 December 2010 earned interest ranging from 0.02% to 0.03% per annum and have a maturity of one year.

The deposits as at 31 December 2011 are pledged to secure a transaction of purchasing scrap automobiles. The deposits as at 31 December 2010 were pledged to secure bank borrowings.

28. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2011	2010	**2011**	2010
	HK$	HK$	**HK$**	HK$
Cash at banks and in hand	**58,320,328**	39,912,851	**11,714,593**	17,573,472
Short-term bank deposits	**–**	7,427,913	**–**	–
Cash and cash equivalents	**58,320,328**	47,340,764	**11,714,593**	17,573,472
Denominated in:				
RMB	**17,644,730**	16,619,373	**–**	–
Hong Kong Dollars	**24,239,794**	21,252,690	**11,676,367**	17,573,472
US Dollars	**16,428,654**	9,455,601	**38,226**	–
Other currencies	**7,150**	13,100	**–**	–
	58,320,328	47,340,764	**11,714,593**	17,573,472

The short-term bank deposits as at 31 December 2010 had maturity periods range from 3 months to 12 months and earned interest with fixed interest rate ranging from 0.36% to 1.91% per annum.

The directors of the Company 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 of the Group denominated in RMB amounted to HK$17,644,730 (2010: HK$16,619,373). 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.

29. TRADE AND OTHER PAYABLES – GROUP AND COMPANY

	The Group		The Company	
	2011	2010	**2011**	2010
	HK$	HK$	**HK$**	HK$
Trade payables	**20,600,596**	18,717,582	**–**	–
Other payables and accrual	**9,671,601**	7,815,347	**1,385,983**	805,615
	30,272,197	26,532,929	**1,385,983**	805,615

Credit periods 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	
	2011	2010
	HK$	HK$
0 – 30 days	**10,764,218**	12,852,597
31 – 60 days	**4,771,867**	4,824,956
61 – 90 days	**3,796,518**	255,244
Over 90 days	**1,267,993**	784,785
	20,600,596	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.

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For the year ended 31 December 2011

30. BORROWINGS – GROUP

	2011 HK$	2010 HK$
Current liabilities		
Secured bank loans (note (a))	37,528,824	18,661,304
Obligations under finance leases (note (b))	256,935	2,295,547
	37,785,759	20,956,851
Non-current liabilities		
Obligations under finance leases (note (b))	421,898	–
Total borrowings	38,207,657	20,956,851

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

	2011 HK$	2010 HK$
Current liabilities		
Portion of term loans due for repayment within one year	17,958,110	12,388,215
Portion of term loans due for repayment after one year which contain a repayment on demand clause	19,570,714	6,273,089
Total bank loans	37,528,824	18,661,304

30. BORROWINGS – GROUP (Continued)

(a) (Continued)

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

	2011 HK$	2010 HK$
Current liabilities		
Portion of term loans due for repayment within one year	17,958,110	12,388,215
Non-current liabilities		
Portion of term loans due for repayment after one year (note)		
In the second year	7,470,871	5,076,324
In the third to fifth year	12,099,843	1,196,765
	19,570,714	6,273,089
Total bank loans	37,528,824	18,661,304

Note:

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 2.84% (2010: 3.00%) 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 certain machinery and equipment as disclosed in note 36, and corporate guarantees provided by the Company and its subsidiaries as disclosed in note 38.

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For the year ended 31 December 2011

30. BORROWINGS – GROUP (Continued)

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

	Total minimum lease payments		Present value of minimum lease payments	
	2011	2010	**2011**	2010
	HK$	HK$	**HK$**	HK$
Amount payable:				
Within one year	**296,676**	2,317,577	**256,935**	2,295,547
In the second year	**296,676**	–	**276,398**	–
In the third to fifth year	**148,338**	–	**145,500**	–
	741,690	2,317,577	**678,833**	2,295,547
Future finance charges	**(62,857)**	(22,030)	**–**	–
Finance lease obligations	**678,833**	2,295,547	**678,833**	2,295,547

The Group has entered into finance lease for a motor vehicle (2010: certain machinery and equipment). The lease period is three years (2010: three years in general) and the average effective borrowing rate is 3.72% (2010: 3.00%) 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.

31. DEFERRED TAX

The Group

The Group's recognised deferred tax liabilities arise from depreciation allowance in excess of accounting depreciation. The Group has not recognised deferred tax assets in respect of tax losses of HK$7,273,294 as at 31 December 2011 (2010: HK$3,797,222). 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. Under the current tax legislation in Hong Kong, the tax losses amounting to HK$4,659,185 (2010: HK$3,797,222) do not have expiry period. Under the current tax legislation in the PRC, the tax losses amounting to HK$2,614,109 (2010: nil) can be carried forward for five years from the year when the corresponding loss was incurred.

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31. DEFERRED TAX (Continued)

The Group (Continued)

Deferred tax liabilities 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$20,854,096 (2010: HK$24,205,762) as at 31 December 2011.

The Company

As at 31 December 2011, the Company had no significant unprovided deferred taxation (2010: nil).

32. SHARE CAPITAL

	2011			2010		
	Par value per share HK$	Number of shares	Nominal value HK$	Par value per share HK$	Number of shares	Nominal value HK$
Authorised:						
Ordinary shares						
At 1 January	0.1	1,000,000,000	100,000,000	0.1	1,000,000,000	100,000,000
Sub-division of shares (note (a))	–	4,000,000,000	–	–	–	–
At 31 December	0.02	5,000,000,000	100,000,000	0.1	1,000,000,000	100,000,000

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32. SHARE CAPITAL (Continued)

	2011			2010		
	Par value per share HK$	Number of shares	Nominal value HK$	Par value per share HK$	Number of shares	Nominal value HK$
Issued and fully paid:						
Ordinary shares						
At 1 January	0.1	551,920,000	55,192,000	0.1	489,100,000	48,910,000
Sub-division of shares (note (a))	–	2,207,680,000	–	–	–	–
Issue of shares upon open offer (note (b))	0.02	275,960,000	5,519,200	–	–	–
Repurchase of shares (note (c))	0.02	(8,355,000)	(167,100)	–	–	–
Issue of shares upon exercise of share options (note (d))	–	–	–	0.1	1,200,000	120,000
Issue of shares upon exercise of non-listed warrants (note (e))	–	–	–	0.1	61,620,000	6,162,000
At 31 December	0.02	3,027,205,000	60,544,100	0.1	551,920,000	55,192,000

Notes:

(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 each 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 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 each. The net proceeds generated from the Open Offer amounted to approximately HK$98,152,000.

32. SHARE CAPITAL (Continued)

Notes: (Continued)

(c) During the period from 23 August to 4 October 2011, the Company purchased back 8,355,000 shares over the Stock Exchange. The shares have been duly cancelled on 29 November 2011. As a result, the issued share capital of the Company has become HK$60,544,100 divided into 3,027,205,000 shares of HK$0.02 each.

Details of the shares repurchased during the year are summarised as follows:

Month of repurchase	Number of ordinary shares repurchased	Price per ordinary share Highest HK$	Lowest HK$	Aggregate purchase price HK$
August 2011	2,000,000	0.490	0.485	978,825
September 2011	5,755,000	0.500	0.420	2,586,325
October 2011	600,000	0.440	0.435	263,475
	8,355,000			3,828,625
Total expenses on shares repurchased during the year				19,784
Total				3,848,409

(d) During last 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.

(e) During last 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$60,544,100 (2010: 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.

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33. SHARE OPTION

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.

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

Name of participant	At 1 January 2011	Addition arisen from sub-division of shares	At 31 December 2011	Date of grant	Exercisable period	Exercise price* HK$
Directors						
Lily Wu	1,000,000	4,000,000	5,000,000	17 November 2008	17 November 2008 to 16 November 2018	0.186
Leung Quan Yue, Michelle	500,000	2,000,000	2,500,000	17 November 2008	17 November 2008 to 16 November 2018	0.186
	1,500,000	6,000,000	7,500,000			
Weighted average exercise price (HK$)	0.93	–	0.186*			

* adjusted for the share Sub-Division as disclosed in note 32(a)

33. SHARE OPTION (Continued)

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 (HK$)	0.93	0.93	0.93			

The weighted average share price of the Company at the date of exercise for Share Options exercised in 2010 was HK$2.89. No share options were exercised during the year.

The options outstanding at 31 December 2011 had a weighted average remaining contractual life of 6.95 years (2010: 7.95 years).

At the end of the reporting period, the Company had 7,500,000 (as adjusted for the Share Sub-division) 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 7,500,000 ordinary shares of the Company and additional share capital of HK$150,000 and contributed surplus of HK$1,245,000.

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34. RESERVES

The Group

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

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.

Available-for-sale financial assets revaluation reserve is set up in accordance with the accounting policy set out in note 2.8.

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 (2010: HK$5,166,081).

34. RESERVES (Continued)

The Company

	Contributed surplus HK$	Share option reserve HK$	Other reserves HK$	Warrant reserve HK$	(Accumulated losses)/ Retained profits HK$	Total HK$
At 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 32(d))	2,084,006	(1,088,006)	–	–	–	996,000
Issue of shares upon exercise of non-listed warrants (note 32(e))	64,606,000	–	–	(1,445,500)	–	63,160,500
At 31 December 2010 and 1 January 2011	147,477,970	1,360,008	7	–	(6,752,432)	142,085,553
Profit for the year	–	–	–	–	10,577,642	10,577,642
2010 final dividend approved	(12,142,240)	–	–	–	–	(12,142,240)
Issue of new shares upon open offer (note 32(b))	93,826,400	–	–	–	–	93,826,400
Shares repurchase (note 32(c))	(3,681,309)	–	–	–	–	(3,681,309)
Expenses on issuing new shares	(1,193,534)	–	–	–	–	(1,193,534)
At 31 December 2011	**224,287,287**	**1,360,008**	**7**	**–**	**3,825,210**	**229,472,512**

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.

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35. 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 parties

Related party relationship	Type of transaction	Transaction amount 2011 HK$	2010 HK$
Jointly controlled entity	Interest income earned from advances made	8,893,329	974,164
	Handling fee income earned	–	254,200
	Fees earned from providing financial and management consultancy service	4,180,652	–
Substantial shareholder	Consultancy fee	840,328	–

Particulars of the Group's balance with the jointly controlled entity as a result of the above transactions are disclosed in note 26.

(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 16.

36. PLEDGE OF ASSETS

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

	The Group 2011 HK$	2010 HK$
Machinery and equipment (note 19)	3,108,409	6,518,811
Pledged deposits	–	927,117
	3,108,409	7,445,928

37. COMMITMENTS – GROUP AND COMPANY

Capital commitments

	The Group	
	2011	2010
	HK$	HK$
Capital expenditure contracted but not provided for:		
– Acquisition of plant and equipment	**33,973,061**	346,403

The Company does not have significant capital commitments at the reporting date (2010: nil).

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		The Company	
	2011	2010	**2011**	2010
	HK$	HK$	**HK$**	HK$
Within one year	**5,436,330**	2,788,916	**632,880**	–
In the second to fifth year, inclusive	**9,709,694**	1,070,400	**710,106**	–
	15,146,024	3,859,316	**1,342,986**	–

The Group leases a number of properties under operating leases. The leases run for an initial period of one to five years (2010: 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.

38. FINANCIAL GUARANTEE CONTRACTS

The Company and its subsidiaries have provided guarantees of repayment in respect of the facilities for bank loans and finance leases of the Group amounting to HK$69,000,000 (2010: HK$56,406,776), of which HK$38,207,657 (2010: HK$20,956,851) was utilised and outstanding as at 31 December 2011. 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.

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39. 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.

39.1 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	
	2011	2010	**2011**	2010
	HK$	HK$	**HK$**	HK$
Financial assets				
Loans and receivables				
– Trade and other receivables	**67,488,260**	53,826,576	**1,199,992**	5,490,011
– Pledged deposits	**17,406,252**	927,117	**–**	–
– Bank balances and cash	**58,320,328**	47,340,764	**11,714,593**	17,573,472
– Due from a jointly controlled entity	**132,611,520**	67,103,364	**132,611,520**	67,103,364
– Due from subsidiaries	**–**	–	**119,586,090**	80,833,257
Available-for-sale financial assets				
– Investment in the preferred shares of Hota (USA) and investment in Guangzhou Tecsun	**80,528,382**	67,047,184	**–**	–
Financial assets at fair value through profit or loss				
– Derivative component of investment in the preferred shares of Hota (USA)	**133,575,000**	16,632,846	**–**	–
	489,929,742	252,877,851	**265,112,195**	171,000,104
Financial liabilities				
Financial liabilities at amortised cost				
– Trade and other payables	**28,702,213**	24,916,594	**1,385,983**	805,615
– Borrowings	**38,207,657**	20,956,851	**–**	–
	66,909,870	45,873,445	**1,385,983**	805,615

39. FINANCIAL RISK MANAGEMENT (Continued)

39.2 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.

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 33% (2010: 23%) of the total trade receivables was due from the Group's largest customer and 71% due from the five largest customers of the Group (2010: 73%).

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 25.

39.3 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.

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39. FINANCIAL RISK MANAGEMENT (Continued)

39.3 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$	Between 2 and 5 years HK$
At 31 December 2011						
Bank loans subject to a repayment on demand clause	30,693,186	–	–	–	–	–
Other bank loans	–	6,835,638	–	–	–	–
Obligations under finance leases	–	74,169	74,169	148,338	296,676	148,338
	30,693,186	6,909,807	74,169	148,338	296,676	148,338
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	–	–

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.

39. FINANCIAL RISK MANAGEMENT (Continued)

39.3 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 5 years HK$
At 31 December 2011					
Trade and other payables	28,702,213	–	–	–	–
Bank loans subject to a repayment on demand clause	3,018,109	3,018,109	6,036,219	8,076,569	12,652,007
Other bank loans	6,835,638	–	–	–	–
Obligations under finance leases subject to a repayment on demand clause	74,169	74,169	148,338	296,676	148,338
	38,630,129	3,092,278	6,184,557	8,373,245	12,800,345
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

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 2011					
Other payables	1,385,983	–	–	–	–
At 31 December 2010					
Other payables	805,615	–	–	–	–

Notes to the Financial Statements

For the year ended 31 December 2011

39. FINANCIAL RISK MANAGEMENT (Continued)

39.3 Liquidity risk (Continued)

The contractual financial guarantees provided by the Company are disclosed in note 38. 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 obligation under finance leases as presented above.

39.4 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 borrowings. Bank loans and finance lease arrangements issued at variable rates 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 30. 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% (2010:+/- 0.5%), with effect from the beginning of the year. The calculations are based on the Group's 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%	– 0.5%
	HK$	HK$
31 December 2011	**256,000**	**(256,000)**
31 December 2010	134,000	(134,000)

39. FINANCIAL RISK MANAGEMENT (Continued)

39.4 Interest rate risk (Continued)

Sensitivity analysis (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 2010 has been prepared on the same basis.

39.5 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 price risk arise from available-for-sale investments (note 23). The Group has not formulated a policy to manage the price risk.

The Group's available-for-sale investments are non-listed securities. For the purpose of this analysis, the impact is deemed to be on the available-for-sale financial assets revaluation reserve and no account is given for factors such as impairment which might impact the income statement.

The Company does not have any exposures to price risk at the end of the reporting period (2010: nil).

39.6 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 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.

Notes to the Financial Statements

For the year ended 31 December 2011

39. FINANCIAL RISK MANAGEMENT (Continued)

39.6 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

	2011				2010			
	RMB HK$	US$ HK$	GBP HK$	EUR HK$	RMB HK$	US$ HK$	GBP HK$	EUR HK$
Trade and other receivables	–	53,277,443	–	3,575,886	25,000	29,340,000	–	219,000
Bank balances and cash	18,375	4,343,651	578	8	1,000	9,480,000	15,000	9,000
Trade and other payables	(14,035)	(12,415,070)	(363,712)	–	(17,000)	(12,867,000)	(308,000)	–
Gross exposure arising from recognised financial assets and liabilities	4,340	45,206,024	(363,134)	3,575,894	9,000	25,953,000	(293,000)	228,000

The Company does not have any exposures to foreign currencies at the end of the reporting period (2010: nil).

Sensitivity analysis

As HK$ is linked to US$, the directors consider that the Group's exposure on currency risk in respect of US$ is not significant. The following table illustrates the sensitivity of the Group's profit for the year and equity in regards to a 10% (2010: 10%) appreciation in the Group entities' functional currencies against other 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.

39. FINANCIAL RISK MANAGEMENT (Continued)

39.6 Foreign currency risk (Continued)

Sensitivity analysis (Continued)

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.

The Group

	2011			2010		
	RMB	**GBP**	**EUR**	RMB	GBP	EUR
	HK$	**HK$**	**HK$**	HK$	HK$	HK$
Increase/(Decrease) in profit for the year and retained earnings	**–**	**(30,000)**	**299,000**	1,000	(24,000)	19,000

A 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 2010 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.

39.7 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).

Notes to the Financial Statements

For the year ended 31 December 2011

39. FINANCIAL RISK MANAGEMENT (Continued)

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

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.

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

	Level 1 HK$	Level 2 HK$	Level 3 HK$	Total HK$
At 31 December 2011				
Available-for-sale financial assets				
– Investment in the preferred shares of Hota (USA)	–	–	78,370,324	78,370,324
Financial assets at fair value through profit or loss				
– Derivative component of investment in the preferred shares of Hota (USA)	–	–	133,575,000	133,575,000
	–	–	211,945,324	211,945,324

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

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

Notes to the Financial Statements

For the year ended 31 December 2011

39. FINANCIAL RISK MANAGEMENT (Continued)

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

The fair value of the Group's investment in the preferred shares of Hota (USA) which are unlisted securities has been estimated using a valuation technique of discounted cash flow method with significant unobservable inputs. The valuation requires directors to make estimates about the expected future cash flows which are discounted at rate of 29.3% with the consideration of the small capitalisation risk premium and startup risk premium. Based on the cash flows projection, Hota (USA)'s major subsidiary will soon commence commercial operations in Zhangjiagang, the PRC with initial revenue contributions in second quarter of 2012.

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:

	2011 HK$	2010 HK$
Opening balance	81,521,972	76,629,802
Total gains recognised in the income statement	123,886,659	2,833,815
Total gains recognised in other comprehensive income	6,536,693	2,058,355
Closing balance	211,945,324	81,521,972

40. 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, defined and calculated by the Group as total borrowings expressed as a percentage of total assets, at 31 December 2011 was 7.8% compared to 7.2% at 31 December 2010.

41. EVENT AFTER THE END OF THE REPORTING PERIOD

On 13 January 2012, the Company completed the issue of 200,000,000 warrants to certain subscribers at the subscription price of HK$0.02 per warrant. Assuming full exercise of the subscription right attaching to the warrants, the number of the issued share capital of the Company would increase by 200,000,000, represent 6.6% of the issued share capital of the Company as at 31 December 2011.

Financial Summary

For the year ended 31 December 2011

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 2011:

CONSOLIDATED RESULTS

	2007 HK$	2008 HK$	2009 HK$	2010 HK$	**2011** **HK$**
Revenue	117,199,695	140,352,099	141,509,907	152,604,376	**139,172,687**
Profit from operations	9,839,952	7,935,154	18,051,846	18,313,258	**165,540,537**
Finance costs	(457,885)	(498,100)	(354,587)	(527,821)	**(713,242)**
Share of losses of a jointly controlled entity	–	–	(1,161,881)	(346,924)	**(73,798,214)**
Profit before income tax	9,382,067	7,437,054	16,535,378	17,438,513	**91,029,081**
Income tax expense	(1,382,014)	(3,059,752)	(6,236,985)	(3,942,871)	**(3,958,610)**
Profit for the year	8,000,053	4,377,302	10,298,393	13,495,642	**87,070,471**
Earnings per share					
Basic	2.03 cents	0.97 cents	0.439 cents	0.537 cents	**2.924 cents**
Diluted	2.01 cents	0.97 cents	0.432 cents	0.507 cents	**2.919 cents**

CONSOLIDATED ASSETS AND LIABILITIES

	2007 HK$	2008 HK$	2009 HK$	2010 HK$	**2011** **HK$**
Non-current assets	40,880,743	68,776,410	115,560,556	111,666,544	**209,005,802**
Current assets	94,931,672	87,976,909	82,190,145	179,173,254	**283,750,671**
Current liabilities	30,249,353	36,468,056	33,059,216	47,867,692	**69,834,106**
Non-current liabilities	5,508,255	6,828,685	2,300,252	4,707	**426,605**