PHOENITRON

Phoenitron Holdings Limited

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

Seeing Further
Going Forward

Annual Report **2012**

Characteristics of the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

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

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Contents

Corporate Information

DIRECTORS

Executive Directors
Lily Wu *(Chairman and Chief Executive Officer)*
Chang Wei Wen
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 KY1-1111
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

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110, Cayman Islands

HONG KONG 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

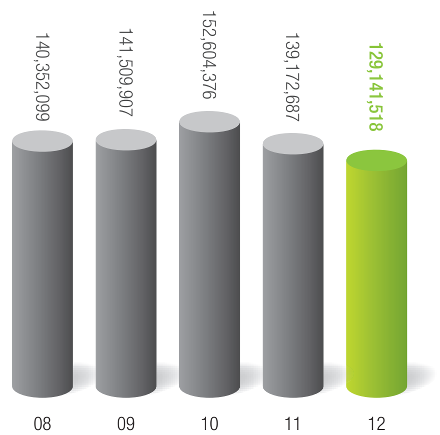
www.phoenitron.com

STOCK CODE

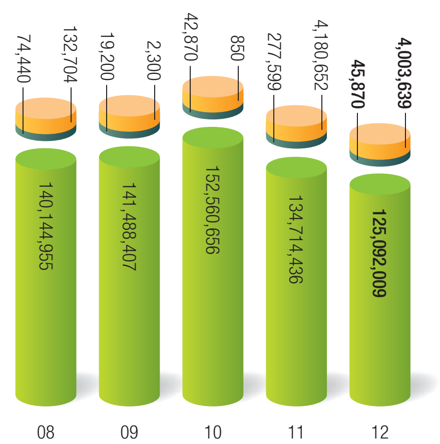
8066

Financial Highlights

TURNOVER

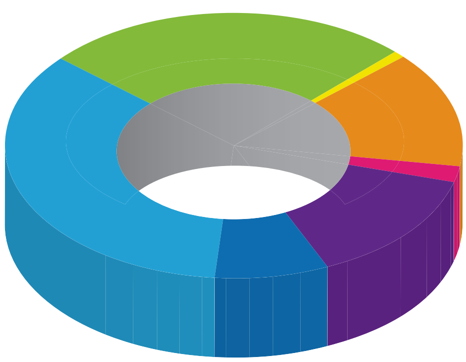


TURNOVER BY SEGMENTS



- Smart Cards and Plastic Cards Manufacturing
- Smart Cards Application Systems
- Service Income

TOTAL ASSETS AT 31 DECEMBER 2012



- 1% Other Assets
- 14% Property, plant and equipment
- 2% Inventories
- 14% Trade and other receivables
- 8% Bank balances and cash
- 35% Amount due from jointly controlled entities
- 26% 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 2012.

RESULTS

For the year ended 31 December 2012, the Company recorded a consolidated revenue of HK$129,142,000 (2011: HK$139,173,000) and loss attributable to the owners of the Company of HK$12,292,000 (2011: profit of HK$87,070,000).

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 2012.

BUSINESS AND OPERATION REVIEW

During the year under review, the Group is principally engaged in the manufacturing and sales of smart cards and plastic cards, the provision of customized smart card application systems, the trading of scrapped automobiles (initial revenue contribution will only be recognized by 2013) 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 SIM cards business faced a difficult and competitive business environment in the year of 2012, as the demand for SIM cards in the overseas telecommunications market shrank due to cyclical fluctuation coupled with the fact that the contract manufacturing industry was affected by the on-going price pressures and rising costs in China, especially labour. The relocation of our Beijing plant also inevitably affected the Group's sales and production. During the year under review, the Group's revenue derived from the manufacturing and sales of smart cards and plastic cards dropped by 7.1% and amounted to HK$125,092,000 (2011: HK$134,714,000).

In spite of that, the management is optimistic about the long-term prospects of the smartcard manufacturing industry through offering the best-quality, new smartcard product innovations, value-added services and convenient and speedy delivery services to the customers. To achieve this, the Group had invested further in its production plants in Beijing and Shenzhen by expanding and upgrading the card packaging and personalization facilities. We have also diversified our customer base by placing more emphasis on some higher value-added smartcard products (e.g. dual-interface cards and contactless card). At the same time, the Group is vertically integrating upstream and has started to offer smartcard IC module packaging and testing services in late 2012Q4. During the year under review, production machines for the new IC module packaging and testing services were properly installed and tested, key production staffs were recruited, the necessary infrastructures were built within the factory and the relevant ISO certifications have been obtained. Certain requisite procedures such as sample making, and the passing of audits of initial customers for production standard and quality were also completed successfully in 2012, and will be on-going in 2013 as the customer base expands. The related pre-operating expenses incurred during the year under review for IC module packaging and testing services amounted to HK$2,063,000. Commercial production commenced in late 2012Q4 and production volumes have gradually ramped up since then. Management believes that the business could breakeven in early 2013Q3. It is believed that the 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.

Taking into account the need for extra production space and facilities for the abovementioned vertical expansion and the increased variety of innovative smartcards products, during the period under review, the Beijing smartcard operation relocated to a new larger facility which houses both the existing smartcard production business and the new IC module packaging and testing business. The move was carefully planned and implemented and was successfully completed by late April and early May 2012. Sales and production was inevitably affected during this period. Despite this short-term adverse effect, the Board believes that, in the long run, the provision of such expanded and 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 one-stop services contract manufacturer with a growing stable customer base.

Provision of customised smart card application systems

Revenue generated from the provision of customised smart card application systems was less than the previous year. The management is exploring new business opportunities and 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 2012, the Group recorded a revenue of approximately HK$4,004,000.

Trading business of scrapped automobile

In order to complement and support the investment in the jointly controlled entity, Hota (USA) Holding Corp. ("HOTA (USA)") and for possible future expansion of the Group into scrap vehicles dismantling and shredding business, the Group has entered into the Framework Agreement with China Railway Materials, a wholly owned subsidiary of China Railway Group, for the formation of a strategic partnership between the Company and China Railway Materials with respect to the scrap vehicles dismantling and shredding business in cities along the approximately 70 railways operated by China Railway Group in the PRC, and the proposed joint establishment of up to 10 scrap vehicles dismantling and shredding plants in the PRC in five years. In addition, a subsidiary in Taiwan has also been set up for the international trading business of scrapped automobiles/metals. After the year end, the operation for trading of scrapped metals has started and the initial revenue contribution will be reflected in 2013Q1.

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$17,674,000. The HOTA group is principally engaged in the recycling of and sales of metals and parts derived from scrapped automobiles.

During the year under review, the HOTA group has signed a series of co-operative agreements with several national enterprises. Following the fulfilment of the requisite requirements for importing scrapped vehicles from Zhangjiagang Environmental Protection Agency in March 2013, the Board anticipates a steady ramp-up of plant utilization and revenue through 2013, 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.

Chairman's Statement

FINANCING OVERVIEW

During the year, 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.

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$3,899,000, representing a net issue price of approximately HK$0.0195 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.

PROSPECTS

Looking forward, we expect 2013 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 2013 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 2012. 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, 22 March 2013

FINANCIAL REVIEW

Revenue

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

The Group's smartcard business faced a difficult and competitive business environment during the year of 2012, characterized by on-going price pressures and rising costs in China. During the period under review, the Group's revenue generated from the smartcard business was HK$125.1 million, down by HK$9.6 million or 7.1% as compared to the corresponding period in 2011 of HK$134.7 million. The decrease was due primarily to price-cuts that have been offered to select customers in exchange for greater sales volume and also the relocation into a new production plant in Beijing which caused temporary interruption to the production.

Revenue generated from the provision of management and financial consultancy services amounted to HK$4.0 million during the year under review, representing a drop of 4.2% as compared to the corresponding period in last year of HK$4.2 million.

Cost of Sales and Gross Profit

During the year under review, cost of sales dropped slightly by HK$3.1 million, or 3.0%, from HK$102.8 million for the corresponding period of 2011 to HK$99.7 million. The decrease in cost of sales was largely attributable to the dropped in sales as well as improved production efficiency, which was unfortunately offset by the increase in depreciation charge as fixed assets were acquired during the year for the new IC module packaging and testing service business which did not commence trial production until Q3 2012.

As a result, gross profit dropped to HK$29.4 million, down by HK$7.0 million, or 19.0%, as compared to the corresponding period in last year of HK$36.4 million. Due to the aforesaid, gross profit margin for the period under review dropped to 22.8%, as compared to 26.1% for the corresponding period in 2011.

Since the new smartcard IC module packaging and testing services has started to ramp up commercial production, the Board believes the Company will capture a greater portion of the value and profit in the smartcard production chain, and provide improved 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. This should enhance competitiveness and achieve a return to smartcard revenue growth and better profits for the Group.

Other Income

Other revenue of HK$21.3 million (2011: HK$16.4 million) was mainly comprised of interest income arising from amount due from jointly-controlled entities, and bank deposits of HK$12.2 million (2011: HK$9.3 million) as well as interest income arising from amortisation of available-for-sale financial assets of HK$7.3 million (2011: HK$6.9 million) plus sundry revenue.

Fair Value Gain 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$133,956,378 (2011: HK$133,575,000) as at 31 December 2012. As a result, a fair value gain on a financial derivative of HK$381,378 was recorded in 2012 (2011: gain of HK$116,942,154).

Other Gains or Losses

During the year under review, other losses amounted HK$1.9 million which was mainly the exchange losses arising from the foreign currency transactions (2011: gains of HK$27.4 million which was represented by the gain on partial disposal of a jointly-controlled entity of HK$29.3 million net off by exchange losses of HK$1.9 million).

Selling and Distribution Costs

Selling and distribution costs increased by 6.4% over the corresponding period in 2011 to HK$6.6 million (2011: HK$6.2 million), and was attributable to the increases in freight charges (as goods were delivered to more remote customers) and also in overseas travelling expenses and staff costs for soliciting new orders and exploring new business opportunities.

Administrative Expenses

Administrative expenses recorded an increase of HK$8.9 million or 35.0% over the corresponding period in 2011 to HK$34.2 million (2011: HK$25.3 million). The increase was primarily attributable to the various pre-operating costs incurred in relation to (i) the new smartcard IC module packaging and testing services of HK$2.1 million and (ii) the existing smartcard business of HK$3.1 million (during the period of relocation to the new plant and before production was resumed normal), and also the one-time expenses incurred associated with the relocation of Beijing plant (such as payment of rentals/building management fee at the same time for both the old and new plants, compensation/severance payments to staffs for termination of employment contracts etc).

Finance Costs

In a lower interest rate environment, the Group has decided to increase its bank borrowings for its operating activities and to finance the acquisition of machinery in relation to the new smartcard IC module packaging and testing business. During the year under review, the Group's finance costs amounted to HK$1.3 million (2011: HK$0.71 million).

Share of Losses of a Jointly Controlled Entity

Share of losses of Hota, a jointly controlled entity, after tax amounted to HK$17.7 million (2011: HK$73.8 million). Hota's loss in the period under review was attributed to operations being below optimal utilization levels due to the early trial period nature of establishing sourcing and delivery channels and fine tuning production and getting all the necessary approvals from the relevant government authorities. We expect commercial volumes of recycling and parts sales to be evident by the second half of 2013. It is expected that Hota's earnings potential will gradually ramp up in the coming quarters to become a net contributor to the Group. 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$1.5 million (2011: HK$4.0 million).

As a result of the foregoing, loss attributable to the owners of the Company in 2012 amounted to HK$12.3 million, representing a drop of 114.1% as compared to a gain of HK$87.1 million in 2011.

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 unlisted warrants. As at 31 December 2012, the Group had cash and bank balances of HK$40.3 million, finance leases payable of HK$0.4 million and secured bank loans of HK$33.3 million.

As at 31 December 2012, the Group had current assets of HK$300.3 million and current liabilities of HK$73.3 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 2012, the Group employed a total of 492 employees, of which 14 were located in Hong Kong and the rest were located in the PRC. Employee cost, including directors' remuneration, was HK$34.2 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, an associate, there were no other significant investments for the year ended 31 December 2012. 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 2012.

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.

CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

At 31 December 2012, certain machinery and equipment with the carrying amounts of HK$32,449,525 and bank deposits of HK$565,720 were pledged by the Company's subsidiaries as collaterals to secure general banking facilities granted to the Group. In addition, the Company's subsidiary has assigned the trade receivables of certain customers to a bank in relation to the banking facilities granted to the Group.

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 (2011: HK$69,000,000), of which HK$33,738,126 (2011: HK$38,207,657) was utilised and outstanding as at 31 December 2012.

GEARING RATIO

The gearing ratio of the Group, expressed as a percentage of total borrowings to total assets of the Group, was 6.6% as at 31 December 2012 (2011: 7.8%). 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 (2011: 0.2 HK cents) for the year ended 31 December 2012.

COMPETING INTERESTS

As at 31 December 2012, 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.

Management Discussion and Analysis

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2012, the Company repurchased a total of 7,870,000 of its own shares on the Stock Exchange at an aggregate consideration (before expenses) of HK$2,694,300. All the repurchased shares were cancelled during the year.

Particulars of the repurchases are as follows:

Date of repurchase	No. of Shares	Price per share		Aggregate Price
		Highest	Lowest	
		HK$	HK$	HK$
January	2,130,000	0.400	0.350	793,050
February	1,900,000	0.370	0.350	674,625
May	2,620,000	0.335	0.295	813,125
June	750,000	0.340	0.315	247,850
July	470,000	0.360	0.350	165,650
TOTAL	7,870,000			2,694,300

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 Wednesday, 8 May 2013, 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 Monday, 6 May 2013 to Wednesday, 8 May 2013 (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 Friday, 3 May 2013.

The last day for dealing in shares cum entitlements to the proposed final dividend for the year ended 31 December 2012 will be on Thursday, 9 May 2013. In order to ascertain the entitlements to receive the proposed final dividend for the year ended 31 December 2012, the register of members of the Company will be closed from Tuesday, 14 May 2013 to Thursday, 16 May 2013 (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 2012, 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, 13 May 2013.

Corporate Governance Report

The Board is pleased to present this Corporate Governance Report for the year ended 31 December 2012.

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 2012 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.

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 2012.

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.

Corporate Governance Report

Board composition

Up to the date of this annual report, the Board comprises six Directors, including three executive Directors and three Independent non-executive Directors. Details of their composition by category are as follows:

Executive Directors
Ms. Lily Wu (Chairman and *Chief Executive Officer)*
Mr. Chang Wei Wen
Mr. Yang Meng Hsiu

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

Biographical details of Directors are set out on page 18 of this annual report.

The Directors, with relevant and sufficient experience and qualifications, have given sufficient time and attention to the affairs of the Group and have exercised due care and fiduciary duties to the significant issues of overall business planning, management and strategic development of the Group.

Board and general meetings

The Board conducts regular scheduled meetings on a quarterly basis. Ad-hoc meetings are convened when circumstances require. During the year ended 31 December 2012, there were four board meetings and one general meeting held. The Directors can attend meetings in person or via telephone conference as permitted under the articles of association of the Company.

Details of individual attendance of all Directors at the board meetings and general meeting are as follows:

Name of Directors	Attendance of Board meetings	Attendance of general meeting
Executive Directors		
Ms. Lily Wu	4/4	1/1
Mr. Chang Wei Wen	4/4	1/1
Ms. Leung Quan Yue, Michelle *(resigned with effect from 3 April 2012)*	0/4	0/1
Mr. Yang Meng Hsiu	4/4	1/1
Independent Non-executive Directors		
Mr. Chan Siu Wing, Raymond	4/4	0/1
Mr. Leung Ka Kui, Johnny	4/4	0/1
Ms. Wong Ka Wai, Jeanne	4/4	0/1

Information of material issues, due notice of meeting and minutes of each directors' meeting have been sent to each of the Directors for their information, comment and review.

The Board is responsible to set strategic plans, formulates policies and provides effective oversight over the management on the operational affairs, and members of the Board are individually and collectively accountable to the shareholders of the Company. The management is responsible for the daily operations of the Group. For significant matters that are specifically delegated by the Board, the management must report back to and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group.

Independent non-executive Directors

Each Director is required to keep abreast of his responsibilities as a director of the Company and of the Company's conduct, business activities and development. Given the essential unitary nature of the Board, independent non-executive Director has the same duties of care and skill and fiduciary duties as executive Directors. Independent non-executive Director brings a wide range of business and financial expertise, experience and independent judgment to the Board. Functions of independent non-executive Director include but should not be limited to the following:

i. participating in Board meetings to bring independent judgment;

ii. taking the lead where potential conflict of interests may arise;

iii. serving on the audit, nomination and remuneration committees if invited; and

iv. scrutinizing the Group's performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance.

Pursuant to Rule 5.05 of the GEM Listing Rules, the Board has appointed three independent non-executive Directors, representing half of the Board and all of them have appropriate professional accounting qualifications or related experiences on financial management which is in compliance with Rule 5.05A and 5.05 of the GEM Listing Rules. Currently, there is no specific terms of service for each of the independent non-executive Directors and the appointment may continue thereafter unless and until terminated by either the Company or the independent non-executive director by giving not less than one month's prior notice in writing and such appointment is subject at all times to the Articles of Association.

The Company strongly supports the principle of Board independence. Mr. Leung Ka Kui, Johnny and Ms. Wong Ka Wai Jeanne have been serving the Board as independent non-executive directors for more than nine years and have consistently demonstrated their willingness to exercise independent judgments and provide objective challenges to management. They have actively participated in board meetings and board committee meetings held during the year and have shown themselves able to give constructive and independent advice to the Board over significant issues. Therefore, the Board considers that both of them remain independent, notwithstanding the length of their tenure as independent non-executive directors. The Board has assessed their independence and considers that all independent non-executive Directors are independent as required under the GEM Listing Rules. All independent non-executive Directors have also confirmed their independence pursuant to Rule 5.09 of the GEM Listing Rules by providing an annual confirmation of their independence.

Continuous Professional Development

Pursuant to Code Provision A.6.5, which has come into effect from 1 April 2012, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. Up to the date of this report, all Directors have participated in continuous professional development by attending training course or reading relevant materials on the topics related to corporate governance and regulations.

The individual training record of each Director received for the year ended 31 December 2012 is summarized below:

Name of Directors	Attending seminar(s)/ Programme(s)/ relevant materials in relation to the business or directors' duties
Executive Directors	
Ms. Lily Wu	Yes
Mr. Chang Wei Wen	Yes
Mr. Yang Meng Hsiu	Yes
Independent non-executive Directors	
Mr. Chan Siu Wing, Raymond	Yes
Mr. Leung Ka Kui, Johnny	Yes
Ms. Wong Ka Wai, Jeanne	Yes

All the Directors also understand the importance of continuous professional development and are committed to participating any suitable training or reading relevant materials in order to develop and refresh their knowledge and skills.

BOARD COMMITTEES

Audit committee

The audit committee currently comprises three independent non-executive Directors and is chaired by Ms. Wong Ka Wai, Jeanne. The rest of members are Mr. Leung Ka Kui, Johnny and Mr. Chan Siu Wing, Raymond. At the discretion of the audit committee, executive Directors and/or senior management personnel, overseeing the Group's finance and internal control functions, may be invited to attend meeting. The primary role and function of the audit committee are to review the Company's financial controls, internal control and risk management systems; to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard; to review the Company's financial statements, annual reports, interim reports and quarterly reports, and to provide advice and comment thereon to the Board.

The audit committee held four meetings to review the quarterly, interim and annual results during the year ended 31 December 2012 as well as discussed and reviewed the Group's internal control and audit works with the auditor of the Group. Details of the attendance of the audit committee meetings are as follows:

Members	Attendance
Mr. Leung Ka Kui, Johnny	4/4
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 2012 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.

Nomination committee

The nomination committee comprises two executive Directors and three independent non-executive Directors and is chaired by Ms. Lily Wu. The rest of the members are Mr. Chan Siu Wing, Raymond, Mr. Leung Ka Kui, Johnny, Ms. Wong Ka Wai, Jeanne and Mr. Yang Meng Hsiu. The primary role and function of the nomination committee are to review and monitor the structure, size and composition of the Board at least once a year and make recommendations on any proposed changes to the Board to carry out the Company's corporate strategies; to assess the independence of independent non-executive Directors; and to make recommendations to the Board succession planning.

The nomination committee held one meeting during the year ended 31 December 2012. Details of the attendance of the nomination committee meetings are as follows:

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

Remuneration committee

The remuneration committee comprises two executive Directors and three independent non-executive Directors and is chaired by Mr. Leung Ka Kui, Johnny. The rest of the members are Mr. Chan Siu Wing, Raymond, Mr. Chang Wei Wen, Ms. Lily Wu and Ms. Wong Ka Wai, Jeanne. The primary role and function of the remuneration committee are to review and make recommendations to the Board on the Company's policy and structure for all directors and senior management remuneration; and to review and make recommendations to the Board the remuneration packages of all Directors and senior management.

The remuneration committee held one 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
Mr. Chan Siu Wing, Raymond	1/1
Mr. Chang Wei Wen	1/1
Ms. Lily Wu	1/1
Ms. Wong Ka Wai, Jeanne	1/1

AUDITORS' REMUNERATION

During the year ended 31 December 2012, 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	480
Non-audit services Taxation compliance services	45

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 2012, 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 Auditor's Report" on pages 24 to 25.

SHAREHOLDERS' RIGHTS

Convening of extraordinary general meeting

Pursuant to article 58 of the articles of association of the Company (the "Articles of Association"), the Directors of the Company, notwithstanding anything in its bye-laws shall, on the requisition of Shareholders of the Company holding at the date of the deposit of the requisition not less than one-tenth of such of the paid-up capital of the company as at the date of the deposit carries the right of voting at general meetings of the Company, forthwith proceed duly to convene an extraordinary general meeting ("EGM") of the Company.

The requisition must state the purposes of the meeting, and must be signed by the requisitionists and deposited at the Company Secretary at the Company's principal place of business in Hong Kong, and may consist of several documents in like form each signed by one or more requisitionists.

The request will be verified with the Company's Share Registrars and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board of Directors to include the resolution in the agenda for the EGM.

If the Directors do not within twenty-one days from the date of the deposit of the requisition proceed duly to convene a meeting, the requisitionists may themselves convene a meeting.

Enquiries put to the Board

The enquiries must be in writing with contact information of the requisitionists and deposited at the Company Secretary at the Company's principal place of business in Hong Kong.

Procedures for putting forward proposals at shareholders' meetings

Pursuant to article 59(1) of the Articles of Association, in order to put forward proposals at an annual general meeting ("AGM"), or EGM, the Shareholders should submit a written notice of those proposals with the detail contact information to the Company Secretary at the Company's principal place of business in Hong Kong. The request will be verified with the Company's Share Registrars and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board to include the resolution in the agenda for the general meeting.

The notice period to be given to all the Shareholders for consideration of the proposal raised by the Shareholders concerned at AGM or EGM varies according to the nature of the proposal, as follows:

- At least 21 clear days' notice in writing if the proposal constitutes a special resolution of the Company in AGM or EGM

- At least 14 clear days' notice in writing for all other EGMs

INVESTOR RELATIONS

The Company establishes different communication channels with investors to update the latest business development and financial performance including the publication of quarterly, interim and annual reports, the publish and posting of notices, announcements and circulars on the GEM website and the Company's website in order to maintain a high level of transparency, and to ensure there is no selective disclosure of inside information.

During the year ended 31 December 2012, there has been no significant change in the Company's constitutional documents.

Profiles of Directors and Senior Management

EXECUTIVE DIRECTORS

Lily WU, aged 50, is an executive Director and the Chairman of the Company. She was appointed as Director of the Company in June 2005. Ms. Wu has 26 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.

CHANG Wei Wen, aged 36, 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 36, 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 7 years of experience in product planning and brand name marketing business.

INDEPENDENT NON-EXECUTIVE DIRECTORS

LEUNG Ka Kui Johnny, aged 56, is an independent non-executive Director. He is the chairman of the remuneration committee and one of the members of the audit committee and the nomination committee of the Company. Mr. Leung is a qualified solicitor in Hong Kong, the United Kingdom and Singapore. He has over 28 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 AMCO United Holding Limited (formerly known as 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 48, is an independent non-executive Director. She is the chairman of the audit committee and one of the members of the remuneration committee and the nomination committee of the Company. Ms. Wong has over 25 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 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 48, is an independent non-executive Director. He is one of the members of the audit committee, the remuneration committee and the nomination committee of the Company. Mr. Chan has over 21 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 each of China Flooring Holding Company Limited and Quali-Smart Holdings Limited, 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 40, is the financial controller and the Company Secretary of the Group. Mr. Lau has over 16 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 2012.

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 and the provision of management and financial consultancy services.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on page 26.

The Directors recommend the payment of a final dividend of 0.2 HK cents per share (2011: 0.2 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
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. Yang Meng Hsiu and Ms. Wong Ka Wai, Jeanne 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$248,522,104 reserves available for distribution.

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

As at 31 December 2012, 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)*	Beneficial owner	Long	1,000,000	5,000,000	0.20
Chang Wei Wen	Beneficial owner	Long	5,250,000	–	0.17
Yang Meng Hsiu	Beneficial owner	Long	43,000,000	–	1.41

Note:

1. These include 5,000,000 Share Options conferring rights to subscribe for 5,000,000 Shares.

Save as disclosed above, as at 31 December 2012, 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 2012, 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	504,885,125	16.58
Best Heaven Limited *(Note 1)*	Beneficial	Long	315,565,000	10.37
Mr. Tsai Chi Yuan *(Note 1)*	Interests in controlled company	Long	820,450,125	26.95

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 2012, 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.

SENIOR MANAGEMENT

The Group regards the executive directors, independent non-executive directors and financial controller of the Company as members of the senior management team.

The emoluments paid or payable to members of senior management were within the following brands:

	Number of individuals 2012	2011
Emolument bands		
Nil – HK$1,000,000	7	6
HK$1,000,001 – HK$1,500,000	1	2

The biographies of members of the senior management team at the date of this annual report are disclosed in the section on Biographical Details of Directors and Senior Management in this annual 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	41.1%
– five largest customers in aggregate	78.1%

Purchases

– the largest supplier	43.4%
– five largest suppliers in aggregate	75.2%

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 96 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, 2011 and 2012 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, 22 March 2013

Independent auditor's report

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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 26 to 95, which comprise the consolidated and the company statements of financial position as at 31 December 2012, 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 2012 and of the Group's loss 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
Tsui Ka Che, Norman
Practising Certificate no. P05057

Hong Kong, 22 March 2013

Consolidated statement of comprehensive income

For the year ended 31 December 2012

	Notes	2012 HK$	2011 HK$
Revenue	6	129,141,518	139,172,687
Cost of sales		(99,701,027)	(102,812,927)
Gross profit		29,440,491	36,359,760
Other income	7	21,293,508	16,361,860
Fair value gain on a financial derivative	23(a)	381,378	116,942,154
Other gains and losses	8	(1,897,393)	27,421,442
Selling and distribution costs		(6,631,283)	(6,229,901)
Administrative expenses		(34,165,257)	(25,314,778)
Finance costs	9	(1,303,678)	(713,242)
Share of losses of an associate		(269,078)	–
Share of losses of a jointly controlled entity		(17,674,003)	(73,798,214)
(Loss)/Profit before income tax	10	(10,825,315)	91,029,081
Income tax expense	11	(1,466,716)	(3,958,610)
(Loss)/Profit for the year	12	(12,292,031)	87,070,471
Other comprehensive income			
Changes in fair value of available-for-sale financial assets		(9,999,347)	6,536,693
Exchange gain on translation of financial statements of foreign operations		2,663,558	3,759,782
Other comprehensive income for the year		(7,335,789)	10,296,475
Total comprehensive income for the year		(19,627,820)	97,366,946
		HK cents	HK cents
(Loss)/Earnings per share	14		
– Basic		(0.405)	2.924
– Diluted		(0.405)	2.919

Consolidated statement of financial position

As at 31 December 2012

	Notes	2012 HK$	2011 HK$
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	19	73,072,916	24,437,000
Intangible assets	20	420,000	420,000
Prepayments for acquisition of property, plant and equipment		1,879,941	29,027,964
Interest in an associate	22	866,058	1,135,136
Long-term financial assets	23	133,967,201	153,985,702
		210,206,116	209,005,802
Current assets			
Inventories	24	8,300,248	5,114,610
Trade and other receivables	25	70,080,356	70,297,961
Amounts due from jointly controlled entities	26	181,524,516	132,611,520
Tax recoverable		27,868	–
Pledged bank deposits	27	565,720	17,406,252
Cash and cash equivalents	28	39,783,378	58,320,328
		300,282,086	283,750,671
Current liabilities			
Trade and other payables	29	39,735,864	30,272,197
Borrowings	30	33,592,627	37,785,759
Current tax liabilities		–	1,776,150
		73,328,491	69,834,106
Net current assets		226,953,595	213,916,565
Total assets less current liabilities		437,159,711	422,922,367
Non-current liabilities			
Borrowings	30	145,499	421,898
Deferred tax liabilities	31	4,707	4,707
		150,206	426,605
Net assets		437,009,505	422,495,762
EQUITY			
Share capital	32	60,886,700	60,544,100
Share subscription received	33(b)	30,000,000	–
Reserves	34	346,122,805	361,951,662
Total equity		437,009,505	422,495,762

Lily Wu
Director

Chang Wei Wen
Director

Statement of financial position

As at 31 December 2012

	Notes	2012 HK$	2011 HK$
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	19	641,663	829,290
Interests in subsidiaries	21	145,707,645	146,541,080
		146,349,308	147,370,370
Current assets			
Other receivables	25	1,896,721	1,460,071
Amounts due from jointly controlled entities	26	181,524,516	132,611,520
Tax recoverable		156,854	–
Cash and cash equivalents	28	12,360,705	11,714,593
		195,938,796	145,786,184
Current liabilities			
Other payables	29	1,519,292	1,385,983
Current tax liabilities		–	1,753,959
		1,519,292	3,139,942
Net current assets		194,419,504	142,646,242
Total assets less current liabilities/Net assets		340,768,812	290,016,612
EQUITY			
Share capital	32	60,886,700	60,544,100
Share subscription received	33(b)	30,000,000	–
Reserves	34	249,882,112	229,472,512
Total equity		340,768,812	290,016,612

Lily Wu
Director

Chang Wei Wen
Director

Consolidated statement of cash flows

For the year ended 31 December 2012

	2012 HK$	2011 HK$
Cash flows from operating activities		
(Loss)/Profit before income tax	(10,825,315)	91,029,081
Adjustments for:		
Depreciation	16,859,351	11,300,183
Exchange difference, net	798,957	1,195,236
Fair value gain on a financial derivative	(381,378)	(116,942,154)
Finance costs	1,303,678	713,242
Gain on disposal of property, plant and equipment	(148,177)	(77)
Gain on partial disposal of a jointly controlled entity	–	(29,315,437)
Interest income	(19,484,542)	(16,194,797)
Provision for impairment on trade receivables	206,238	390,902
Share of losses of a jointly controlled entity	17,674,003	73,798,214
Share of losses of investment in an associate	269,078	–
Write down of inventories to net realisable value	447,026	598,187
Operating profit before working capital changes	6,718,919	16,572,580
(Increase)/Decrease in inventories	(3,632,664)	567,223
Decrease/(Increase) in trade and other receivables	16,967	(3,511,767)
Increase in trade and other payables	9,463,667	4,080,571
Cash generated from operations	12,566,889	17,708,607
Interest paid for bank loans	(1,263,936)	(664,057)
Income taxes paid	(3,308,427)	(2,115,207)
Net cash generated from operating activities	7,994,526	14,929,343
Cash flows from investing activities		
Interest received	76,584	356,963
Increase in amounts due from jointly controlled entities	(36,778,509)	(56,614,827)
Decrease in loan receivables	–	5,268,493
Decrease/(Increase) in pledged bank deposits	16,840,532	(16,479,135)
Purchase of property, plant and equipment	(34,968,744)	(7,909,990)
Prepayments for acquisition of property, plant and equipment	(1,879,941)	(29,027,964)
Proceeds from partial disposal of a jointly controlled entity	–	364,400
Proceeds from disposal of property, plant and equipment	354,585	7,070
Net cash used in investing activities	(56,355,493)	(104,034,990)

Consolidated statement of cash flows

For the year ended 31 December 2012

	2012 HK$	2011 HK$
Cash flows from financing activities		
Capital element of finance leases payments	(256,935)	(1,616,714)
Interest element of finance leases payments	(39,742)	(49,185)
Dividends paid	(6,051,950)	(12,136,640)
Proceeds from issue of unlisted warrants	4,000,000	–
Proceeds from exercising unlisted warrants	30,000,000	–
Unlisted warrants issue expenses	(101,500)	–
Proceeds from shares issued	9,000,000	99,345,600
Proceeds from new bank loans	15,960,321	25,569,465
Repayments of bank loans	(20,172,917)	(6,741,794)
Repurchase of shares	(2,710,587)	(3,848,409)
Share issue expenses	–	(1,193,534)
Net cash generated from financing activities	29,626,690	99,328,789
Net (decrease)/increase in cash and cash equivalents	(18,734,277)	10,223,142
Cash and cash equivalents at 1 January	58,320,328	47,340,764
Effect of foreign exchange rate changes	197,327	756,422
Cash and cash equivalents at 31 December	39,783,378	58,320,328

Consolidated statement of changes in equity

For the year ended 31 December 2012

	Share capital HK$	Share subscription received 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 2011	55,192,000	–	137,272,980	1,360,008	7	8,781,604	2,058,355	–	38,302,445	242,967,399
2010 final dividend 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
Issue of non-listing warrants (note 33(b))	–	–	–	–	–	–	–	3,898,500	–	3,898,500
2011 final dividend approved (note 13)	–	–	(6,046,350)	–	–	–	–	–	–	(6,046,350)
Repurchase of shares (note 32(c))	(157,400)	–	(2,553,187)	–	–	–	–	–	–	(2,710,587)
Issue of shares upon exercise of non-listed warrants (note 32(d))	500,000	–	8,987,313	–	–	–	–	(487,313)	–	9,000,000
Cash paid by warrant holders to subscribe shares (note 33(b))	–	30,000,000	–	–	–	–	–	–	–	30,000,000
Transactions with owners	342,600	30,000,000	387,776	–	–	–	–	3,411,187	–	34,141,563
Loss for the year	–	–	–	–	–	–	–	–	(12,292,031)	(12,292,031)
Other comprehensive income										
– Change in fair value of available-for-sale financial assets	–	–	–	–	–	–	(9,999,347)	–	–	(9,999,347)
– Translation of foreign operations	–	–	–	–	–	2,663,558	–	–	–	2,663,558
Total comprehensive income for the year	–	–	–	–	–	2,663,558	(9,999,347)	–	(12,292,031)	(19,627,820)
At 31 December 2012	60,886,700	30,000,000	214,470,073	1,360,008	7	15,204,944	(1,404,299)	3,411,187	113,080,885	437,009,505

* 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 2012

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 manufacturing and sales of smart cards and plastic cards, provision of customised smart card application systems and 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 2012 were approved for issued by the board of directors on 22 March 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These financial statements on pages 26 to 95 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.

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 judgement of current events and actions, actual results may ultimately differ from those estimates and assumptions. The areas involving a higher degree of judgement 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of consolidation (Continued)

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.

2.4 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Associates and jointly controlled entities (Continued)

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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Property, plant and equipment

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

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

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

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

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

2.7 Intangible assets (other than goodwill)

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

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.

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.

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Financial assets (Continued)

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

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

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

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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Financial assets (Continued)

Impairment of financial assets (Continued)

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

(i) *Financial assets carried at amortised cost*

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

(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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Financial liabilities (Continued)

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.

2.14 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Leases (Continued)

(i) *Assets acquired under finance leases*

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

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

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

(ii) *Operating lease charges as the lessee*

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

2.15 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

2.18 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 then 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 amortisation, if no impairment loss had been recognised. A reversal of such impairment is credited to profit or loss in the period in which it arises unless that asset is carried at revalued amount, in which case the reversal of impairment loss is accounted for in accordance with the relevant accounting policy for the revalued amount.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

(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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

2.22 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.

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 2012

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 2012:

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets

The adoption of new/revised HKFRSs has no material impact on the Group's financial statements.

(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.

HKFRSs (Amendments)	Annual Improvements 2009-2011 Cycle[2]
Amendments to HKAS 1 (Revised)	Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income[1]
Amendments to HKAS 32	Presentation – Offsetting Financial Assets and Financial Liabilities[3]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
HKAS 19 (2011)	Employee Benefits[2]
HKAS 27 (2011)	Separate Financial Statements[2]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[2]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HK (IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]
Amendments to HKFRS 1	Government loans[2]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment entities[3]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

3. ADOPTION OF NEW OR REVISED HKFRSs (Continued)

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

HKFRSs (Amendments) Annual Improvements 2009-2011 Cycle

The Annual Improvements to HKFRS – 2009-2011 Cycle include a number of amendments to various HKFRSs, which include:

HKAS 1 Presentation of Financial Statements

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

HKAS 16 Property Plant and Equipment

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

HKAS 32 Financial Instruments: Presentation

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 Income Taxes.

HKAS 34 Interim Financial Reporting

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

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.

3. ADOPTION OF NEW OR REVISED HKFRSs (Continued)

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

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 amortised 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 recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. 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 entirety. 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.

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.

3. ADOPTION OF NEW OR REVISED HKFRSs (Continued)

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

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 recognise 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.

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 Measurement

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.

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 judgement 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 judgement are required in assessing the net realisable value of inventories.

(iii) Fair value of the investment in convertible preferred shares

As mentioned in note 23(a), the Group's investment in the Series A preferred shares of Hota (USA) Holding Corp. is measured at fair value which is determined based on value-in-use calculation using cash flow projection. The valuation was based on certain assumptions and involves significant estimates and judgement, hence the fair value of the preferred shares is subject to uncertainty. Further details about the valuation are set out in note 39.6.

(iv) 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. The business components in the internal reporting to the executive directors, the chief operating decision-makers, are determined following the Group's major product and service lines. The Group is currently organised into the following three operating segments:

- 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.

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

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 and associate, 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.

For the year ended 31 December 2012

5. SEGMENT INFORMATION (Continued)

Segment results, segment assets and segment liabilities

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

2012

	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	125,092,009	45,870	4,003,639	–	129,141,518
Reportable segment profit/(loss)	(9,168,896)	(1,606,545)	15,588,175	–	4,812,734
Fair value gain on a financial derivative					381,378
Finance costs					(1,303,678)
Share of losses of a jointly controlled entity					(17,674,003)
Share of losses of an associate					(269,078)
Unallocated interest income					7,350,055
Corporate expenses, net					(4,122,723)
Loss before income tax					(10,825,315)

5. SEGMENT INFORMATION (Continued)

Segment results, segment assets and segment liabilities (Continued)

2012

	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	121,297,954	8,265	184,062,900	14,965,258	320,334,377
Interest in an associate					866,058
Long-term financial assets					133,967,201
Intangible assets					420,000
Proceeds receivable from partial disposal of a jointly controlled entity					14,523,600
Tax recoverable					27,868
Pledged bank deposits					565,720
Bank balances and cash					39,783,378
Total consolidated assets					510,488,202
Reportable segment liabilities	37,855,556	33,780	755,007	1,091,521	39,735,864
Borrowings					33,738,126
Deferred tax liabilities					4,707
Total consolidated liabilities					73,478,697
					Consolidated HK$
Other information					
Depreciation	15,445,789	1,117,157	187,627	108,778	16,859,351
Interest income	–	–	12,134,487	7,350,055	19,484,542
Write down of inventories to net realisable value	447,026	–	–	–	447,026
Provision for impairment on trade receivables	206,238	–	–	–	206,238
Additions to specified non-current assets	35,849,236	–	–	999,449	36,848,685

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$
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

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 a 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

For the year ended 31 December 2012

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	
	2012	2011	**2012**	2011
	HK$	HK$	**HK$**	HK$
Denmark, France, United Kingdom	**54,020,755**	45,500,548	**–**	–
Hong Kong	**476,072**	830,917	**1,820,217**	2,555,697
India, Indonesia, Singapore	**33,142,929**	37,466,248	**–**	–
Mauritius and South Africa	**603,299**	9,497,392	**–**	–
The PRC, excluding Hong Kong	**36,679,631**	38,594,424	**73,528,027**	52,464,403
Others	**4,218,832**	7,283,158	**890,671**	–
Total	**129,141,518**	139,172,687	**76,238,915**	55,020,100

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 the PRC, the 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 who individually contributed 10% or more of the Group's total revenue during the reporting period is as follows:

	2012	2011
	HK$	HK$
Customer A	**53,935,044**	45,558,673
Customer B	**18,772,532**	26,648,273
Customer C	**22,257,786**	19,882,283

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:

	2012 HK$	2011 HK$
Sales of smart cards and plastic cards	125,092,009	134,714,436
Sales of smart card application systems	45,870	277,599
Service income	4,003,639	4,180,652
	129,141,518	139,172,687

7. OTHER INCOME

	2012 HK$	2011 HK$
Interest income (note (a))	19,484,542	16,194,797
Government subsidies (note (b))	1,743,598	–
Sundry income	65,368	167,063
	21,293,508	16,361,860

Notes:

(a) Interest income comprises interest income arising from the balances due from jointly-controlled entities (note 26) and bank deposits of HK$12,211,071 (2011: HK$9,250,292) 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$7,273,471 (2011: HK$6,944,505).

(b) The one-off unconditional government subsidies received from the PRC government during the year were for subsidising the Group's smart cards and plastic cards and module packaging business operation.

8. OTHER GAINS AND LOSSES

	2012 HK$	2011 HK$
Gain on partial disposal of a jointly controlled entity (note 23(a))	–	29,315,437
Gain on disposal of property, plant and equipment	148,177	77
Exchange losses, net	(2,045,570)	(1,894,072)
	(1,897,393)	27,421,442

9. FINANCE COSTS

	2012 HK$	2011 HK$
Interest charges on bank loans wholly repayable within five years (note)	1,263,936	664,057
Interest element of finance lease payments	39,742	49,185
	1,303,678	713,242

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 2012 and 2011, interest charges on bank borrowings which contain a repayment on demand clause amounted to HK$1,145,441 and HK$569,812 respectively.

10. (LOSS)/PROFIT BEFORE INCOME TAX

	2012 HK$	2011 HK$
(Loss)/Profit before income tax is arrived at after charging:		
Auditors' remuneration	480,000	455,650
Costs of inventories recognised as expenses	99,701,027	102,812,927
Depreciation		
– Owned assets	16,684,231	11,183,437
– Leased assets	175,120	116,746
	16,859,351	11,300,183
Employee benefit expenses (note 15)	34,213,474	32,236,594
Operating lease charges on land and buildings	6,889,424	6,981,244
Provision for impairment on trade receivables	206,238	390,902
Research and development costs	147,566	85,149
Write down of inventories to net realisable value[1]	447,026	598,187

[1] included in cost of inventories recognised as expenses

11. INCOME TAX EXPENSE

	2012 HK$	2011 HK$
Current tax		
Hong Kong Profits Tax:		
Current year	2,453,550	3,952,579
(Over)/Under provision in prior year	(1,647,260)	6,031
	806,290	3,958,610
PRC Enterprise Income Tax ("EIT")		
Current year	660,426	–
Total income tax expense	1,466,716	3,958,610

Hong Kong Profits Tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits for the year. Taxation for subsidiaries established and operated in the PRC is calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the PRC.

Pursuant to the income tax rules and regulations of the PRC, the subsidiaries in the PRC are liable to EIT at the rate of 25% (2011: 25%).

Reconciliation between income tax expense and accounting (loss)/profit at applicable tax rates is as follows:

	2012 HK$	2011 HK$
(Loss)/Profit before income tax	(10,825,315)	91,029,081
Income tax at Hong Kong Profits Tax rate of 16.5% (2011: 16.5%)	(1,786,176)	15,019,797
Effect of different tax rates of subsidiaries operating in other jurisdictions	(1,587,018)	(417,352)
Tax effect of non-deductible expenses	3,911,341	1,753,167
Tax effect of non-taxable income	(3,385,329)	(25,489,453)
Tax effect of tax losses not recognised	2,870,371	573,552
Tax effect of other temporary differences not recognised	228,633	125,928
Share of results of a jointly controlled entity and an associate	2,960,608	12,176,705
(Over)/Under provision in prior year	(1,647,260)	6,031
Others	(98,454)	210,235
Income tax expense	1,466,716	3,958,610

12. PROFIT FOR THE YEAR

Of the consolidated profit for the year, a profit of HK$16,610,637 (2011: HK$10,577,642) has been dealt with in the financial statements of the Company.

13. DIVIDENDS

(a) Dividends attributable to the year

	2012 HK$	2011 HK$
Proposed final dividend of HK0.2 cents (2011: HK0.2 cents) per share	6,238,670	6,046,350

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

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

	2012 HK$	2011 HK$
Final dividend in respect of the previous financial year of HK0.2 cents (2011: HK0.4 cents) per share	6,046,350	12,142,240

14. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss for the year of HK$12,292,031 (2011: profit of HK$87,070,471) and the weighted average number of 3,032,556,466 (2011: 2,978,100,507) ordinary shares in issue during the year.

(b) Diluted (loss)/earnings per share

No adjustment has been made to the basic loss per share as the outstanding share options and warrants had anti-dilutive effect on the basic loss per share for 2012.

The calculation of diluted earnings per share for 2011 is based on the profit for 2011 of HK$87,070,471 and the weighted average number of 2,983,001,208 ordinary shares, calculated as follows:

	2011
Weighted average number of ordinary shares used in the calculation of basic earnings per share	2,978,100,507
Effect of deemed issue of shares under the Company's share option scheme	4,900,701
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	2,983,001,208

15. EMPLOYEE BENEFIT EXPENSE (including directors' emoluments)

	2012 HK$	2011 HK$
Salaries, wages and other benefits	31,247,511	29,666,915
Contributions to defined contribution retirement plans	2,965,963	2,569,679
	34,213,474	32,236,594

16. DIRECTORS' REMUNERATION

Directors' emoluments for the years ended 31 December 2012 and 2011 are as follows:

2012

Name	Fee HK$	Salaries, allowances and benefits in kind HK$	Discretionary bonus HK$	Retirement scheme contributions HK$	Total HK$
Executive Directors:					
Lily Wu	–	456,478	–	13,750	470,228
Leung Quan Yue, Michelle (note)	–	30,667	–	1,533	32,200
Chang Wei Wen	–	924,157	–	25,000	949,157
Yang Meng Hsiu	–	165,000	–	8,250	173,250
	–	1,576,302	–	48,533	1,624,835
Independent Non-executive Directors:					
Wong Ka Wai, Jeanne	70,000	–	–	–	70,000
Leung Ka Kui, Johnny	70,000	–	–	–	70,000
Chan Siu Wing, Raymond	70,000	–	–	–	70,000
	210,000	–	–	–	210,000
	210,000	1,576,302	–	48,533	1,834,835

16. DIRECTORS' REMUNERATION (Continued)

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

Note:

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

Miss Leung Quan Yue, Michelle was resigned as executive director on 3 April 2012.

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 (2011: nil).

There was no arrangements under which a director waived or agreed to waive any emoluments during the year (2011: nil).

17. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals include one (2011: two) director(s) whose remuneration is disclosed in note 16. The aggregate emoluments of the remaining four (2011: three) highest paid individuals are as follows:

	2012 HK$	2011 HK$
Salaries and allowances	2,653,104	2,167,131
Contributions to retirement scheme	55,000	36,000
	2,708,104	2,203,131

The emoluments fell within the following bands:

	Number of individuals	
	2012	2011
Emolument bands		
Nil – HK$1,000,000	3	2
HK$1,000,001 – HK$1,500,000	1	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. The cap of monthly relevant is increased from HK$20,000 to HK$25,000 from 1 May 2012. 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$2,965,963 (2011: HK$2,569,679). No forfeited contribution is available for offset against existing contributions during the reporting period (2011: nil).

For the year ended 31 December 2012

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 2011						
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
Year ended 31 December 2012						
Opening net book amount	20,106,253	848,990	971,429	972,316	1,538,012	24,437,000
Additions	46,651,057	1,096,269	2,264,887	12,608,949	1,375,546	63,996,708
Disposals	(111,649)	–	(79,110)	–	(15,649)	(206,408)
Depreciation	(13,605,121)	(415,054)	(493,508)	(1,662,774)	(682,894)	(16,859,351)
Exchange differences	1,437,504	15,718	32,038	194,446	25,261	1,704,967
Closing net book amount	54,478,044	1,545,923	2,695,736	12,112,937	2,240,276	73,072,916
At 31 December 2012						
Cost	137,497,742	4,265,596	5,364,016	17,843,710	4,125,927	169,096,991
Accumulated depreciation	(83,019,698)	(2,719,673)	(2,668,280)	(5,730,773)	(1,885,651)	(96,024,075)
Net book amount	54,478,044	1,545,923	2,695,736	12,112,937	2,240,276	73,072,916

19. PROPERTY, PLANT AND EQUIPMENT (Continued)

As at 31 December 2012, a motor vehicle with net book value of HK$583,733 (2011: HK$758,853) has been held under finance lease. The capital value of the motor vehicle at the inception of lease entered into in 2011 amounted to HK$800,000.

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$
At 1 January 2011				
Cost	–	–	–	–
Accumulated depreciation	–	–	–	–
Net book amount	–	–	–	–
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
Year ended 31 December 2012				
Opening net book amount	100,675	229,882	498,733	829,290
Depreciation	(22,736)	(52,049)	(112,842)	(187,627)
Closing net book amount	77,939	177,833	385,891	641,663
At 31 December 2012				
Cost	113,681	260,244	564,212	938,137
Accumulated depreciation	(35,742)	(82,411)	(178,321)	(296,474)
Net book amount	77,939	177,833	385,891	641,663

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20. INTANGIBLE ASSETS

	China driving licence HK$
At 1 January 2011, 31 December 2011 and 31 December 2012	
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

	The Company	
	2012 HK$	2011 HK$
Unlisted shares, at cost	26,954,990	26,954,990
Amounts due from subsidiaries	121,964,418	122,968,285
Less: Provision for impairment	(3,211,763)	(3,382,195)
	145,707,645	146,541,080

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.

21. INTERESTS IN SUBSIDIARIES (Continued)

Details of the Company's subsidiaries, which are all wholly-owned, as at 31 December 2012 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
China Phoenitron Energy Shares Limited	Hong Kong, limited liability company	HK$1,000,000 authorised, but unpaid ordinary shares	Trading and dismantling of scrapped vehicles
Elegant Future (HK) Limited	Hong Kong, limited liability company	HK$10,000 ordinary shares	Investment holdings and trading of scrapped vehicles/metals
Elegant Future (Taiwan) Company Limited	Taiwan, limited liability company	NTD40,000,000 ordinary shares	Trading and dismantling of scrapped vehicles/metals
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
Kartop (HK) Limited	Hong Kong, limited liability company	HK$1,000,000 authorised, but unpaid ordinary shares	Investment holding

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21. INTERESTS IN SUBSIDIARIES (Continued)

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
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 and sales of smart card and raw materials
Topwise Technology (SZ) Limited	PRC, wholly-foreign-owned enterprises	HK$4,000,000 registered capital	Smart card and plastic card manufacturing and sales
Ultra Force Holdings Limited	BVI, limited liability company	US$1 ordinary share	Investment holding
Waystech Group Limited	BVI, limited liability company	US$10,000 ordinary share	Investment holding
Waywise Step International Limited	BVI, limited liability company	US$100 ordinary share	Investment holding
World Praise International Limited	BVI, limited liability company	US$1 ordinary share	Investment holding
北京萬利時智能科技有限公司	PRC, wholly-foreign-owned enterprises	HK$7,311,900 (2011: 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$38,000,000 (2011: HK$5,700,000)	Provision of IC module packaging and testing service

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

	2012 HK$	2011 HK$
Share of net assets	866,058	1,135,136

Details of the Group's associate as at 31 December 2012 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:

	2012 HK$	2011 HK$
Assets	4,791,253	6,825,050
Liabilities	(161,988)	(104,529)
Revenue	2,782,266	3,361,872
Net (loss)/profit	(2,195,677)	35,786

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

23. LONG-TERM FINANCIAL ASSETS

	2012 HK$	2011 HK$
Investment in Hota (USA) (note (a))	131,809,143	151,827,644
Investment in Guangzhou Tecsun (note (b))	2,158,058	2,158,058
	133,967,201	153,985,702

23. LONG-TERM FINANCIAL ASSETS (Continued)

Notes:

(a) Hota (USA) Holding Corp. ("Hota (USA)") is an investment holding company incorporated in the United States of America. As at 31 December 2012, 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 2012, the Group is interested in (i) 83.33% (2011: 83.33%) of the Series A preferred shares of Hota (USA), which entitle the Group to receive 5% non-cumulative dividends and have become redeemable at 100% of the principal amount since the 3rd quarter of 2012; and (ii) 35.29% (2011: 35.29%) 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 2012, the Group is interested in 57.81% (2011: 57.81%) 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$75,644,448 (2011: HK$78,370,324) as at 31 December 2012, with a derivative component arising from the conversion right of the Series A preferred shares which is stated at fair value of HK$133,956,378 (2011: HK$133,575,000) as at 31 December 2012.

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 2012, the Group's share of losses of Hota (USA) and its subsidiary (the "Hota Group") amounted to HK$17,674,003 (2011: HK$73,798,214). The losses are applied to and has reduced the purchase price paid by the Group for the investment in Series A preferred shares of Hota (USA) which are in substance part of the Group's long-term investment in Hota Group.

	2012 HK$	2011 HK$
Investment in Series A preferred shares		
Available-for-sale financial asset	75,644,448	78,370,324
Derivative component	133,956,378	133,575,000
	209,600,826	211,945,324
Interest in a jointly controlled entity	(77,791,683)	(60,117,680)
	131,809,143	151,827,644

During 2011, 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.

23. LONG-TERM FINANCIAL ASSETS (Continued)

Notes: (Continued)

(a) (Continued)

Details of Hota (USA) and its principal subsidiary as at 31 December 2012 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 USD12,000,000	35.29% (2011: 35.29%) 83.33% (2011: 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)

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:

	2012 HK$	2011 HK$
Assets and liabilities:		
Non-current assets	305,644,293	314,983,676
Current assets	31,359,789	30,969,733
Current liabilities	(359,803,330)	(291,543,713)
Non-current liabilities	(276,185,319)	(264,129,060)
Net liabilities	(298,984,567)	(209,719,364)
Results:		
Income	17,808,683	2,163,416
Expenses	(98,516,677)	(171,697,563)
Net losses	(80,707,994)	(169,534,147)

The Group has not incurred any contingent liabilities or other commitments relating to its investment in Hota (USA).

For the year ended 31 December 2012

23. LONG-TERM FINANCIAL ASSETS (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.

	2012 HK$	2011 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

	2012 HK$	2011 HK$
Raw materials	5,702,874	2,845,035
Work-in-progress	2,180,030	1,725,452
Finished goods	417,344	544,123
	8,300,248	5,114,610

25. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2012 HK$	2011 HK$	2012 HK$	2011 HK$
Trade receivables	30,047,945	37,206,700	–	–
Less: Provision for impairment of trade receivables	(206,238)	(390,902)	–	–
Trade receivables, net (note (a))	29,841,707	36,815,798	–	–
Other receivables, deposits and prepayment (note (b))	40,238,649	33,482,163	1,896,721	1,460,071
	70,080,356	70,297,961	1,896,721	1,460,071

25. TRADE AND OTHER RECEIVABLES (Continued)

Note:

(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:

	2012 HK$	2011 HK$
0 – 30 days	16,753,468	14,725,566
31 – 90 days	11,172,847	18,383,160
Over 90 days	1,915,392	3,707,072
	29,841,707	36,815,798

The movement in the allowance for impairment of trade receivables is as follows:

	2012 HK$	2011 HK$
Carrying amount at 1 January	390,902	–
Impairment losses recognised	206,238	390,902
Amounts written off as uncollectible	(390,902)	–
Carrying amount at 31 December	206,238	390,902

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

	2012 HK$	2011 HK$
Neither past due nor impaired	21,668,198	21,879,642
1 – 30 days past due	5,337,149	7,322,814
31 – 90 days past due	2,455,640	5,726,932
Over 90 days past due	380,720	1,886,410
	29,841,707	36,815,798

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.

25. TRADE AND OTHER RECEIVABLES (Continued)

Notes: (continued)

(b) Other receivables as at 31 December 2012 and 2011 included 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 unconditional purchase agreement, the outstanding consideration is to be fully settled by 23 April 2012.

Having considered the outstanding consideration is long overdue and that it is still uncertain whether the buyer will settle the balance, the management has considered the need to make impairment provision for the outstanding consideration. As the disposed shares are still held by the Group on behalf of the buyer as collateral, the fair value of those shares have been taken into account in estimating the amount of impairment needed. As the estimated fair value of those disposed shares is higher than the outstanding consideration and accordingly, no impairment loss is recognised in the financial statements of the Group.

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. AMOUNTS DUE FROM JOINTLY CONTROLLED ENTITIES

The balances as at 31 December 2012 comprise (i) loans to Hota (USA) with interest accrued thereon amounting to HK$147,540,782 (2011: HK$132,611,520) which are unsecured, interest bearing at 8.5% to 10% (2011: 10%) per annum and have become matured as at 31 December 2012; and (ii) a loan to the subsidiary of Hota (USA) amounting to HK$33,983,734 (2011: nil) which is unsecured, interest bearing at 10% per annum and is due within one year. The Group is in negotiation with the jointly controlled entities to extend the repayment dates of the loans to a latter period.

The loan agreements entered into by the Group and Hota (USA) specified possible capitalisation for the loans made to Hota (USA) in case Hota (USA) failed to repay the loans together with any interest accrued on due date. As at 31 December 2012 and up to the date of this report, no formal agreement has been signed in relation to the capitalisation of the loans.

27. PLEDGED BANK DEPOSITS

The deposit as at 31 December 2012 earns interest at floating rate based on daily bank deposit rates and is pledged to secure certain bank facilities granted by a bank (note 36).

The deposits as at 31 December 2011 were interest-free and did not have specified maturity date and were pledged to secure a transaction of purchasing scrap automobiles.

28. CASH AND CASH EQUIVALENTS

	The Group 2012 HK$	The Group 2011 HK$	The Company 2012 HK$	The Company 2011 HK$
Cash at banks and in hand	39,783,378	58,320,328	12,360,705	11,714,593

	The Group 2012 HK$	The Group 2011 HK$	The Company 2012 HK$	The Company 2011 HK$
Denominated in:				
RMB	10,310,346	17,644,730	–	–
Hong Kong Dollars	20,200,292	24,239,794	12,218,553	11,676,367
US Dollars	1,115,014	16,428,654	142,152	38,226
New Taiwan Dollar	8,157,726	–	–	–
Other currencies	–	7,150	–	–
	39,783,378	58,320,328	12,360,705	11,714,593

As at the reporting date, cash of the Group denominated in RMB amounted to HK$10,310,346 (2011: HK$17,644,730). 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

	The Group 2012 HK$	The Group 2011 HK$	The Company 2012 HK$	The Company 2011 HK$
Trade payables	26,999,204	20,600,596	–	–
Other payables and accrual	12,736,660	9,671,601	1,519,292	1,385,983
	39,735,864	30,272,197	1,519,292	1,385,983

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29. TRADE AND OTHER PAYABLES (Continued)

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:

	2012 HK$	2011 HK$
0 – 30 days	10,532,989	10,764,218
31 – 60 days	7,283,710	4,771,867
61 – 90 days	3,589,519	3,796,518
Over 90 days	5,592,986	1,267,993
	26,999,204	20,600,596

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.

30. BORROWINGS

	2012 HK$	2011 HK$
Current liabilities		
Secured bank loans (note (a))	33,316,228	37,528,824
Obligations under finance leases (note (b))	276,399	256,935
	33,592,627	37,785,759
Non-current liabilities		
Obligations under finance leases (note (b))	145,499	421,898
Total borrowings	33,738,126	38,207,657

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

	2012 HK$	2011 HK$
Current liabilities		
Portion of term loans due for repayment within one year	17,331,188	17,958,110
Portion of term loans due for repayment after one year which contain a repayment on demand clause	15,985,040	19,570,714
Total bank loans	33,316,228	37,528,824

30. BORROWINGS (Continued)

(a) (continued)

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

	2012 HK$	2011 HK$
Current liabilities		
Portion of term loans due for repayment within one year	17,331,188	17,958,110
Non-current liabilities		
Portion of term loans due for repayment after one year (note)		
In the second year	7,592,523	7,470,871
In the third to fifth year	8,392,517	12,099,843
	15,985,040	19,570,714
Total bank loans	33,316,228	37,528,824

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.

Among the Group's bank borrowings as at 31 December 2012, HK$22,137,930 (2011: HK$26,993,369) were arranged at fixed annual interest rates of 3% to 4.25% (2011: 3% to 4.25%). The remaining balance of the Group's bank borrowings of HK$11,178,298 (2011: HK$10,535,455) were arranged at floating rates of LIBOR plus 1.75% per annum and HIBOR plus 2.5% per annum (2011: LIBOR plus 1.5% per annum and HIBOR plus 2.5% 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 assets of the Group as disclosed in note 36, and corporate guarantees provided by the Company and its subsidiaries as disclosed in note 38.

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30. BORROWINGS (Continued)

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

	Total minimum lease payments		Present value of minimum lease payments	
	2012	2011	**2012**	2011
	HK$	HK$	**HK$**	HK$
Amount payable:				
Within one year	**296,676**	296,676	**276,399**	256,935
In the second year	**148,338**	296,676	**145,499**	276,398
In the third to fifth year	**–**	148,338	**–**	145,500
	445,014	741,690	**421,898**	678,833
Future finance charges	**(23,116)**	(62,857)	**–**	–
Finance lease obligations	**421,898**	678,833	**421,898**	678,833

The Group entered into finance lease for a motor vehicle in 2011. The lease period is three years and the borrowing rate is 3.75% per annum at the contract date of the lease. The lease is repayable in fixed monthly principal installments plus interest and no arrangements have been entered into for contingent rental payments. The above leases was 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$24,669,396 as at 31 December 2012 (2011: HK$7,273,294). 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$6,319,433 (2011: HK$4,659,185) do not have expiry period. Under the current tax legislation in the PRC, the tax losses amounting to HK$18,349,963 (2011: HK$2,614,109) can be carried forward for five years from the year when the corresponding loss was incurred.

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$14,229,204 (2011: HK$20,854,096) as at 31 December 2012.

The Company

As at 31 December 2012, the Company had no significant unprovided deferred taxation (2011: nil).

32. SHARE CAPITAL

	2012 Par value per share HK$	2012 Number of shares	2012 Nominal value HK$	2011 Par value per share HK$	2011 Number of shares	2011 Nominal value HK$
Authorised:						
Ordinary shares						
At 1 January	0.02	5,000,000,000	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	0.02	5,000,000,000	100,000,000

	2012 Par value per share HK$	2012 Number of shares	2012 Nominal value HK$	2011 Par value per share HK$	2011 Number of shares	2011 Nominal value HK$
Issued and fully paid:						
Ordinary shares						
At 1 January	0.02	3,027,205,000	60,544,100	0.1	551,920,000	55,192,000
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	(7,870,000)	(157,400)	0.02	(8,355,000)	(167,100)
Issue of shares upon exercise of non-listed warrants (note (d))	0.02	25,000,000	500,000	–	–	–
At 31 December	0.02	3,044,335,000	60,886,700	0.02	3,027,205,000	60,544,100

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 2011 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

During the period from 17 January to 4 July 2012, the Company purchased back 7,870,000 shares over the Stock Exchange. The shares have been duly cancelled between the period from 13 March 2012 to 7 September 2012. Details of the shares repurchased during 2012 are summarised as follows:

Month of repurchase	**Number of ordinary shares repurchased**	**Price per ordinary share Highest HK$**	**Lowest HK$**	**Aggregate purchase price HK$**
January 2012	2,130,000	0.400	0.350	793,050
February 2012	1,900,000	0.370	0.350	674,625
May 2012	2,620,000	0.335	0.295	813,125
June 2012	750,000	0.340	0.315	247,850
July 2012	470,000	0.360	0.350	165,650
	7,870,000			2,694,300
Total expenses on shares repurchased during the year				16,287
Total				2,710,587

32. SHARE CAPITAL (Continued)

Notes: (continued)

(d) In December 2012, 25,000,000 non-listed warrants (note 33(b)) were exercised at the subscription price of HK$0.36 per share, resulting in the issue of 25,000,000 new shares of HK$0.02 each and the transfer of a sum of HK$487,313 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$60,886,700 (2011: HK$60,544,100). 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.

33. SHARE OPTIONS AND WARRANTS

(a) Share options

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.

33. SHARE OPTIONS AND WARRANTS (Continued)

(a) Share options (Continued)

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

Name of participant	At 1 January 2012	Forfeited	At 31 December 2012	Date of grant	Exercisable period	Exercise Price* HK$
Directors						
Lily Wu	5,000,000	–	5,000,000	17 November 2008	17 November 2008 to 16 November 2018	0.186
Leung Quan Yue, Michelle	2,500,000	(2,500,000)	–	17 November 2008	17 November 2008 to 16 November 2018	0.186
	7,500,000	(2,500,000)	5,000,000			
Weighted average exercise price (HK$)	0.186		0.186*			

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

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*			

No share options were exercised during year 2012 and 2011.

The options outstanding at 31 December 2012 had a weighted average remaining contractual life of 5.95 years (2011: 6.95 years).

33. SHARE OPTIONS AND WARRANTS (Continued)

(a) Share options (Continued)

Miss Leung Quan Yue Michelle has resigned as an executive director of the Company with effect from 3 April 2012 and the share options granted to her for subscribing of 2,500,000 ordinary shares of HK$0.186 each in the share capital of the Company has been forfeited on the same date.

At the end of the reporting period, the Company had 5,000,000 (2011: 7,500,000) share options outstanding under the New Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 5,000,000 ordinary shares of the Company and additional share capital of HK$100,000 and contributed surplus of HK$830,000.

(b) Warrants

On 13 January 2012, the Company completed the issue of 200,000,000 non-listed warrants to certain subscribers at the warrant issue price of HK$0.02 per warrant. The net proceeds generated from the issue of warrants amounting to HK$3,898,500 is dealt with in the warrant reserve. During the year, 25,000,000 warrants were exercised for 25,000,000 shares of HK$0.02 each at the subscription price of HK$0.36 per share. The exercise in full of the outstanding 175,000,000 warrants, under the present capital structure of the Company, would result in the issue of 175,000,000 additional shares of HK$0.02 each.

As at 31 December 2012, certain warrants holders have paid cash amounting to HK$30,000,000 to subscribe for shares of the Company and additional 75,000,000 shares were issued in January 2013.

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 (2011: HK$5,166,081).

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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 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
Repurchase of shares (note 32(c))	(3,681,309)	–	–	–	–	(3,681,309)
Expenses on issuing new shares	(1,193,534)	–	–	–	–	(1,193,534)
At 31 December 2011 and 1 January 2012	224,287,287	1,360,008	7	–	3,825,210	229,472,512
Profit for the year	–	–	–	–	16,610,637	16,610,637
2011 final dividend approved	(6,046,350)	–	–	–	–	(6,046,350)
Issue of non-listing warrants	–	–	–	3,898,500	–	3,898,500
Repurchase of shares (note 32(c))	(2,553,187)	–	–	–	–	(2,553,187)
Issue of shares upon exercise of non-listed warrants (note 32 (d))	8,987,313	–	–	(487,313)	–	8,500,000
At 31 December 2012	**224,675,063**	**1,360,008**	**7**	**3,411,187**	**20,435,847**	**249,882,112**

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.

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 2012 HK$	2011 HK$
Jointly controlled entities	Interest income earned from advances made	12,135,303	8,893,329
	Fees earned from providing financial and management consultancy service	4,003,639	4,180,652
Substantial shareholder	Consultancy Fee paid	444,418	840,328

Particulars of the Group's balances with the jointly controlled entities 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 2012 HK$	2011 HK$
Machinery and equipment	32,449,525	3,108,409
Pledged bank deposits	565,720	–
	33,015,245	3,108,409

Apart from the above, the Group has assigned the trade receivables of certain customers to a bank to secure certain borrowings amounting to HK$3,712,250 (2011: HK$4,840,773) granted to the Group as at reporting date.

37. COMMITMENTS

Capital commitments

	The Group	
	2012	2011
	HK$	HK$
Capital expenditure contracted but not provided for:		
– Acquisition of plant and equipment	**6,520,103**	33,973,061

The Company does not have significant capital commitments as at the reporting date (2011: nil).

Operating lease commitments

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

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$	HK$	**HK$**	HK$
Within one year	**5,270,310**	5,436,330	**632,880**	632,880
In the second to fifth year, inclusive	**6,882,322**	9,709,694	**77,226**	710,106
	12,152,632	15,146,024	**710,106**	1,342,986

The Group and the Company lease a number of properties under operating leases. The leases run for an initial period of one to five years (2011: one to five years) and one to two years (2011: one to three years) respectively, 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 (2011: HK$69,000,000), of which HK$33,738,126 (2011: HK$38,207,657) was utilised and outstanding as at 31 December 2012. 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.

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 and interest rate 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	
	2012	2011	**2012**	2011
	HK$	HK$	**HK$**	HK$
Financial assets				
Loans and receivables				
– Trade and other receivables	**55,624,165**	67,488,260	**1,639,022**	1,199,992
– Pledged bank deposits	**565,720**	17,406,252	**–**	–
– Bank balances and cash	**39,783,378**	58,320,328	**12,360,705**	11,714,593
– Due from jointly controlled entities	**181,524,516**	132,611,520	**181,524,516**	132,611,520
– Due from subsidiaries	**–**	–	**118,752,665**	119,586,090
Available-for-sale financial assets				
– Investment in the preferred shares of Hota (USA) and investment in Guangzhou Tecsun	**77,802,506**	80,528,382	**–**	–
Financial assets at fair value through profit or loss				
– Derivative component of investment in the preferred shares of Hota (USA)	**133,956,378**	133,575,000	**–**	–
	489,256,663	489,929,742	**314,276,908**	265,112,195
Financial liabilities				
Financial liabilities at amortised cost				
– Trade and other payables	**38,549,025**	28,702,213	**1,519,292**	1,385,983
– Borrowings	**33,738,126**	38,207,657	**–**	–
	72,287,151	66,909,870	**1,519,292**	1,385,983

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 34% (2011: 33%) of the total trade receivables was due from the Group's largest customer and 71% (2011: 71%) due from the five largest customers of the Group.

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.

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.

39. FINANCIAL RISK MANAGEMENT (Continued)

39.3 Liquidity risk (Continued)

	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 2012						
Bank loans subject to a repayment on demand clause	24,603,358	–	–	–	–	–
Other bank loans	–	8,762,975	–	–	–	–
Obligations under finance leases	–	74,169	74,169	148,338	148,338	–
	24,603,358	8,837,144	74,169	148,338	148,338	–
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

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.

For the year ended 31 December 2012

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 2012					
Trade and other payables	38,549,025	–	–	–	–
Bank loans subject to a repayment on demand clause	2,495,205	1,797,368	4,760,567	8,088,605	8,655,262
Other bank loans	8,762,975	–	–	–	–
Obligations under finance leases	74,169	74,169	148,338	148,338	–
	49,881,374	1,871,537	4,908,905	8,236,943	8,655,262
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	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

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 2012					
Other payables	1,519,292	–	–	–	–
At 31 December 2011					
Other payables	1,385,983	–	–	–	–

For the year ended 31 December 2012

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 arranged 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 result and equity to a possible change in interest rates of +/- 0.5% (2011: +/- 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

	2012 Decrease/ (Increase) in loss for the year and increase/ (decrease) in retained earnings HK$	2011 Increase/ (Decrease) in profit for the year and retained earnings HK$
Changes in interest rate:		
+0.5%	(47,000)	(44,000)
-0.5%	47,000	44,000

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 2011 has been prepared on the same basis.

For the year ended 31 December 2012

39. FINANCIAL RISK MANAGEMENT (Continued)

39.5 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.

Summary of exposure

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

The Group

	2012				2011			
	RMB HK$	US$ HK$	GBP HK$	EUR HK$	RMB HK$	US$ HK$	GBP HK$	EUR HK$
Trade and other receivables	–	19,604,556	–	–	–	53,277,443	–	3,575,886
Bank balances and cash	–	1,680,734	–	–	18,375	4,343,651	578	8
Amounts due from jointly controlled entities	33,983,734	147,540,782	–	–	–	132,611,520	–	–
Investment in Series A preferred shares								
– Available-for-sale financial asset	–	75,644,448	–	–	–	78,370,324	–	–
– Derivative component	–	133,956,378	–	–	–	133,575,000	–	–
Trade and other payables	(15,588)	(14,523,911)	–	(237,816)	(14,035)	(12,415,070)	(363,712)	–
Gross exposure arising from recognised financial assets and liabilities	33,968,146	363,902,987	–	(237,816)	4,340	389,762,868	(363,134)	3,575,894

The Company does not have any exposures to foreign currencies at the end of the reporting period (2011: nil).

39. FINANCIAL RISK MANAGEMENT (Continued)

39.5 Foreign currency risk (Continued)

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 result and equity in regards to a 5% (2011: 10%) appreciation in the Group entities' functional currencies against other foreign currencies. The 5% (2011: 10%) is the rate used when reporting foreign currency risk internally to key management personnel and represents management's best assessment of the possible change in foreign exchange rates.

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

The Group

	2012		2011	
	Decrease/(Increase) in loss for the year and increase/(decrease) in retained earnings		Increase/(Decrease) in profit for the year and retained earnings	
	RMB	**EUR**	GBP	EUR
	HK$	**HK$**	HK$	HK$
Changes in exchange rate:				
HK$ appreciate by 5% (2011: 10%) against foreign currencies	**(1,418,000)**	**10,000**	30,000	(299,000)
HK$ depreciate by 5% (2011: 10%) against foreign currencies	**1,418,000**	**(10,000)**	(30,000)	299,000

The sensitivity analysis for the year ended 31 December 2011 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.

For the year ended 31 December 2012

39. FINANCIAL RISK MANAGEMENT (Continued)

39.6 Fair value measurements recognised in the statement of financial position

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

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

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

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

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

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 2012				
Available-for-sale financial assets				
– Investment in the preferred shares of Hota (USA)	–	–	75,644,448	75,644,448
Financial assets at fair value through profit or loss				
– Derivative component of investment in the preferred shares of Hota (USA)	–	–	133,956,378	133,956,378
	–	–	209,600,826	209,600,826

	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

39. FINANCIAL RISK MANAGEMENT (Continued)

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

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

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 generated by Hota (USA) which are discounted at pre-tax rates of 33.43% or 35.43% (2011: 33.54%), depending on the business lines, with the consideration of the small capitalisation risk premium and startup risk premium. Based on the cash flows projection, Hota (USA) will soon be operated with its full production capacity with initial profits contributions in 2013. The directors believe that the estimated fair values resulting from this valuation technique are reasonable and are the most appropriate values at the end of the reporting period.

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

	2012 HK$	2011 HK$
Opening balance	211,945,324	81,521,972
Total gains recognised in the income statement	7,654,849	123,886,659
Total (losses)/gains recognised in other comprehensive income	(9,999,347)	6,536,693
Closing balance	209,600,826	211,945,324

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 2012 was 6.6% compared to 7.8% at 31 December 2011.

Financial Summary

For the year ended 31 December 2012

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 2012:

CONSOLIDATED RESULTS

	2008 HK$	2009 HK$	2010 HK$	2011 HK$	**2012** **HK$**
Revenue	140,352,099	141,509,907	152,604,376	139,172,687	129,141,518
Profit from operations	7,935,154	18,051,846	18,313,258	165,540,537	8,421,444
Finance costs	(498,100)	(354,587)	(527,821)	(713,242)	(1,303,678)
Share of losses of an associate	–	–	–	–	(269,078)
Share of losses of a jointly controlled entity	–	(1,161,881)	(346,924)	(73,798,214)	(17,674,003)
(Loss)/Profit before income tax	7,437,054	16,535,378	17,438,513	91,029,081	(10,825,315)
Income tax expense	(3,059,752)	(6,236,985)	(3,942,871)	(3,958,610)	(1,466,716)
(Loss)/Profit for the year	4,377,302	10,298,393	13,495,642	87,070,471	(12,292,031)
(Loss)/Earnings per share Basic	0.97 cents	0.439 cents	0.537 cents	2.924 cents	(0.405) cents
Diluted	0.97 cents	0.432 cents	0.507 cents	2.919 cents	(0.405) cents

CONSOLIDATED ASSETS AND LIABILITIES

	2008 HK$	2009 HK$	2010 HK$	2011 HK$	**2012** **HK$**
Non-current assets	68,776,410	115,560,556	111,666,544	209,005,802	210,206,116
Current assets	87,976,909	82,190,145	179,173,254	283,750,671	300,282,086
Current liabilities	36,468,056	33,059,216	47,867,692	69,834,106	73,328,491
Non-current liabilities	6,828,685	2,300,252	4,707	426,605	150,206