PHOENITRON

PHOENITRON HOLDINGS LIMITED

品創控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8066)

INTERIM REPORT
FOR THE SIX MONTHS ENDED 30 JUNE 2013

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.

This report, for which the directors (the "Directors") of Phoenitron Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

SUMMARY

- The Group recorded an unaudited turnover of HK$58,505,000 for the six months ended 30 June 2013, representing a drop of 10.4% as compared with that of the corresponding period in 2012.
- The unaudited loss attributable to the owners of the Company for the six months ended 30 June 2013 was HK$7,544,000.
- The Board does not recommend any payment of an interim dividend for the six months ended 30 June 2013.

UNAUDITED INTERIM RESULTS

The board (the "Board") of Directors announces the unaudited consolidated results of the Company and its subsidiaries (together, the "Group") for the three months and the six months ended 30 June 2013 together with the comparative figures for the corresponding periods in 2012 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Three months ended 30 June		**Six months ended 30 June**	
		2013	2012	**2013**	2012
	Notes	***HK$***	*HK$*	***HK$***	*HK$*
Revenue	*2*	**26,285,559**	32,662,164	**58,504,542**	65,285,564
Cost of sales		**(24,943,541)**	(25,752,912)	**(55,710,903)**	(51,829,725)
Gross profit		**1,342,018**	6,909,252	**2,793,639**	13,455,839
Other income	*3*	**5,153,532**	4,558,349	**9,401,197**	9,458,722
Other gains and losses	*4*	**(224,081)**	(483,761)	**(474,270)**	(1,066,884)
Selling and distribution costs		**(1,819,628)**	(1,693,558)	**(3,350,664)**	(3,171,668)
Administrative expenses		**(7,482,833)**	(8,280,691)	**(14,987,716)**	(14,483,405)
Finance costs	*5*	**(281,254)**	(348,274)	**(552,212)**	(700,714)
Share of losses of a jointly controlled entity		**–**	(5,185,323)	**–**	(10,297,622)
Loss before income tax		**(3,312,246)**	(4,524,006)	**(7,170,026)**	(6,805,732)
Income tax expense	*6*	**(324,407)**	(1,362,000)	**(374,407)**	(2,494,000)
Loss for the period		**(3,636,653)**	(5,886,006)	**(7,544,433)**	(9,299,732)
Other comprehensive income					
Exchange gain on translation of financial statements of foreign operations		**772,080**	(51,886)	**1,122,360**	528,294
Other comprehensive income for the period		**772,080**	(51,886)	**1,122,360**	528,294
Total comprehensive income for the period		**(2,864,573)**	(5,937,892)	**(6,422,073)**	(8,771,438)
		HK cents	*HK cents*	***HK cents***	*HK cents*
Losses per share	*8*				
– Basic		**(0.1154)**	(0.1947)	**(0.2408)**	(0.3075)
– Diluted		**(0.1154)**	(0.1945)	**(0.2400)**	(0.3069)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	Unaudited 30 June 2013 HK$	Audited 31 December 2012 HK$
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**65,509,953**	73,072,916
Intangible assets		**420,000**	420,000
Prepayment for acquisition of property, plant and equipment		**2,163,178**	1,879,941
Interest in an associate		**866,058**	866,058
Long-term financial assets		**133,967,201**	133,967,201
		202,926,390	210,206,116
Current assets			
Inventories	*9*	**14,725,178**	8,300,248
Trade and other receivables	*10*	**68,088,919**	70,080,356
Amount due from jointly controlled entities	*11*	**231,275,940**	181,524,516
Tax Recoverable		**288,813**	27,868
Pledged bank deposit		**3,000,000**	565,720
Cash and cash equivalents		**22,389,182**	39,783,378
		339,768,032	300,282,086
Current liabilities			
Trade and other payables	*12*	**71,121,552**	39,735,864
Borrowings		**34,979,813**	33,592,627
		106,101,365	73,328,491
Net current assets		**233,666,667**	226,953,595
Total assets less current liabilities		**436,593,057**	437,159,711
Non-current liabilities			
Borrowings		**24,588**	145,499
Deferred tax liabilities		**4,707**	4,707
		29,295	150,206
Net assets		**436,563,762**	437,009,505
EQUITY			
Share capital		**63,236,700**	60,886,700
Share subscription received		**–**	30,000,000
Reserves		**373,327,062**	346,122,805
Total equity		**436,563,762**	437,009,505

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	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 2012	60,544,100	–	214,082,297	1,360,008	7	12,541,386	8,595,048	–	125,372,916	422,495,762
2011 final dividend paid during the period	–	–	(6,046,350)	–	–	–	–	–	–	(6,046,350)
Issue of unlisted warrants	–	–	–	–	–	–	–	4,000,000	–	4,000,000
Repurchase of shares	(133,000)	–	(2,154,425)	–	–	–	–	–	–	(2,287,425)
Transactions with owners	(133,000)	–	(8,200,775)	–	–	–	–	4,000,000	–	(4,333,775)
Loss for the period	–	–	–	–	–	–	–	–	(9,299,732)	(9,299,732)
Other comprehensive income – Translation of foreign operations	–	–	–	–	–	528,294	–	–	–	528,294
Total comprehensive income for the period	–	–	–	–	–	528,294	–	–	(9,299,732)	(8,771,438)
At 30 June 2012	**60,411,100**	**–**	**205,881,522**	**1,360,008**	**7**	**13,069,680**	**8,595,048**	**4,000,000**	**116,073,184**	**409,390,549**
At 1 January 2013	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
2012 final dividend paid during the period	–	–	(6,323,670)	–	–	–	–	–	–	(6,323,670)
Issue of shares upon exercise of unlisted warrants	2,350,000	(42,300,000)	42,240,371	–	–	–	–	(2,290,371)	–	–
Cash paid by warrant holders to subscribe shares	–	12,300,000	–	–	–	–	–	–	–	12,300,000
Transactions with owners	2,350,000	(30,000,000)	35,916,701	–	–	–	–	(2,290,371)	–	5,976,330
Loss for the period	–	–	–	–	–	–	–	–	(7,544,433)	(7,544,433)
Other comprehensive income – Translation of foreign operations	–	–	–	–	–	1,122,360	–	–	–	1,122,360
Total comprehensive income for the period	–	–	–	–	–	1,122,360	–	–	(7,544,433)	(6,422,073)
At 30 June 2013	**63,236,700**	**–**	**250,386,774**	**1,360,008**	**7**	**16,327,304**	**(1,404,299)**	**1,120,816**	**105,536,452**	**436,563,762**

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2013	2012
	HK$	*HK$*
Net cash (used in) generated from operating activities	**(1,007,688)**	3,262,432
Net cash used in investing activities	**(45,720,900)**	(12,488,376)
Net cash generated from (used in) financing activities	**29,120,037**	(7,127,980)
Net decrease in cash and cash equivalents	**(17,608,551)**	(16,353,924)
Cash and cash equivalents brought forward	**39,783,378**	58,320,328
Effect of foreign exchange rate changes	**214,355**	(150,472)
Cash and cash equivalents carried forward	**22,389,182**	41,815,932

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This unaudited condensed consolidated financial information for the six months ended 30 June 2013 has 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 condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2012.

Except as for the adoption of new and revised HKFRSs issued by the HKICPA, which are effective for the Group's financial year beginning 1 January 2013, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2012, as described in those annual financial statements. The Directors anticipate that the application of these new and revised HKFRSs will not have material impact on the condensed consolidated financial information of the Group.

Taxes on income in the periods are accrued using the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate applied to the pre-tax income of the period.

The Group has not early applied the new and revised HKFRSs that have been issued by the HKICPA but are not yet effective. The application of these new and revised HKFRSs will not have material impact on the condensed consolidated financial information of the Group.

The preparation of condensed consolidated financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended 31 December 2012.

2. SEGMENT INFORMATION AND REVENUE

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 directors have reviewed the operations of the Group for the six months ended 30 June 2013 based on its products and services and have accordingly identified four reportable operating segments as follows:

(i) Sales of smart cards and plastic cards (including provision of module packaging and testing services);

(ii) Sales of smart cards application systems;

(iii) Financial and management consultancy services; and

(iv) Trading of scrapped automobiles/metals;

Information regarding the Group's reportable segments including the reconciliation to revenue and results is as follows:

2013

	Sales of smart cards and plastic cards *HK$*	**Sales of smart card application system** *HK$*	**Financial and management consultancy services** *HK$*	**Trading of scrapped automobiles/ metals** *HK$*	**Consolidated** *HK$*
Reportable segment revenue	**55,224,681**	**14,558**	**2,366,496**	**898,807**	**58,504,542**
Reportable segment profit/(loss)	**(13,554,151)**	**(17,939)**	**11,233,431**	**(1,761,884)**	**(4,100,543)**
Finance costs					**(552,212)**
Share of losses of a jointly controlled entity					**–**
Unallocated interest income					**17,344**
Corporate expenses, net					**(2,534,615)**
Loss before income tax					**(7,170,026)**

2012

	Sales of smart cards and plastic cards *HK$*	Sales of smart card application system *HK$*	Financial and management consultancy services *HK$*	Trading of scrapped automobiles/ metals *HK$*	Consolidated *HK$*
Reportable segment revenue	63,136,013	26,670	2,122,881	–	65,285,564
Reportable segment profit/(loss)	(4,507,447)	(7,835)	7,368,158	–	2,852,876
Finance costs					(700,714)
Share of losses of a jointly controlled entity					(10,297,622)
Unallocated interest income					3,443,607
Corporate expenses, net					(2,103,879)
Loss before income tax					(6,805,732)

3. OTHER INCOME

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2013	2012	**2013**	2012
	HK$	*HK$*	***HK$***	*HK$*
Interest income *(note (a))*	**5,141,609**	4,536,959	**8,884,278**	9,401,097
Government subsidy *(note (b))*	**–**	–	**497,512**	–
Sundry income	**11,923**	21,390	**19,407**	57,625
	5,153,532	4,558,349	**9,401,197**	9,458,722

Notes:

(a) Interest income comprises interest income arising from amount due from jointly-controlled entities and bank deposits of HK$8,884,278 (six months ended 30 June 2012: HK$6,008,538) 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 of nil (six months ended 30 June 2012: HK$3,392,559).

(b) A one-off unconditional government subsidy received from the PRC government during the period.

4. OTHER GAINS AND LOSSES

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2013	2012	**2013**	2012
	HK$	*HK$*	***HK$***	*HK$*
Gain (loss) on disposal of property, plant and equipment	**(4,818)**	(40,480)	**(4,818)**	51,986
Exchange losses, net	**(219,263)**	(443,281)	**(469,452)**	(1,118,870)
	(224,081)	(483,761)	**(474,270)**	(1,066,884)

5. FINANCE COSTS

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2013	2012	**2013**	2012
	HK$	*HK$*	***HK$***	*HK$*
Interest on bank loans wholly repayable within five years	**275,581**	337,730	**539,645**	678,410
Interest element of finance lease payments	**5,673**	10,544	**12,567**	22,304
	281,254	348,274	**552,212**	700,714

6. **INCOME TAX EXPENSE**

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2013	2012	**2013**	2012
	HK$	*HK$*	***HK$***	*HK$*
Current tax				
– Hong Kong Profits Tax				
Current year	**287,000**	1,362,000	**337,000**	2,494,000
– PRC Enterprise Income Tax				
Current year	**37,407**	–	**37,407**	–
Total income tax expense	**324,407**	1,362,000	**374,407**	2,494,000

Hong Kong Profits Tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits for the period. Taxation for subsidiaries established and operated in the PRC is calculated on the estimated assessable profit for the period 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% (2012: 25%).

7. **DIVIDEND**

The Board does not recommend any payment of an interim dividend for the six months ended 30 June 2013 (six months ended 30 June 2012: NIL).

The final dividend of HK$0.002 (2011: HK$0.002) per share for the year ended 31 December 2012 had been approved and was paid before 31 May 2013.

8. **LOSSES PER SHARE**

(a) **Basic losses per share**

The calculation of basic losses per share is based on the losses for the three months and the six months ended 30 June 2013 of HK$3,636,653 and HK$7,544,433 respectively (three months and six months ended 30 June 2012: HK$5,886,006 and HK$9,299,732 respectively) and the weighted average of 3,150,159,176 and 3,132,484,171 ordinary shares in issue during the periods (three months and six months ended 30 June 2012: 3,022,455,220 and 3,024,409,396 ordinary shares respectively).

(b) **Diluted losses per share**

The calculation of diluted (losses) earnings per share is based on the losses for the three months and the six months ended 30 June 2013 of HK$3,636,653 and HK$7,544,433 respectively (three months and six months ended 30 June 2012: HK$5,886,006 and HK$9,299,732 respectively) and the weighted average of 3,152,524,041 and 3,144,093,066 ordinary shares (three months and six months ended 30 June 2012: 3,025,947,791 and 3,030,334,498 ordinary shares respectively), calculated as follows:

	Three months ended 30 June		**Six months ended 30 June**	
	2013	2012	**2013**	2012
Weighted average number of ordinary shares used in the calculation of basic (losses) earnings per share	**3,150,159,176**	3,022,455,220	**3,132,484,171**	3,024,409,396
Effect of deemed issue of shares under the Company's share option scheme	**2,364,865**	3,492,571	**2,682,187**	3,687,818
Effect of deemed issue of shares on exercise of warrants	**–**	–	**8,926,708**	2,237,284
Weighted average number of ordinary shares for the purpose of calculating diluted (losses) earnings per share	**3,152,524,041**	3,025,947,791	**3,144,093,066**	3,030,334,498

9. INVENTORIES

	Unaudited 30 June 2013	Audited 31 December 2012
	HK$	*HK$*
Raw materials	**10,232,488**	5,702,874
Work-in-progress	**2,865,166**	2,180,030
Finished goods	**1,627,524**	417,344
	14,725,178	8,300,248

10. TRADE AND OTHER RECEIVABLES

	Unaudited 30 June 2013	Audited 31 December 2012
	HK$	*HK$*
Trade receivables, net *(note)*	**24,701,189**	29,841,707
Other receivables, deposits and prepayment	**43,387,730**	40,238,649
	68,088,919	70,080,356

Notes:

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:

	Unaudited 30 June 2013 *HK$*	Audited 31 December 2012 *HK$*
0 – 30 days	**9,489,452**	16,753,468
31 – 90 days	**12,521,524**	11,172,847
Over 90 days	**2,690,213**	1,915,392
	24,701,189	29,841,707

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

	Unaudited 30 June 2013 *HK$*	Audited 31 December 2012 *HK$*
Neither past due nor impaired	**13,922,050**	21,668,198
1 – 30 days past due	**7,954,235**	5,337,149
31 – 90 days past due	**1,147,918**	2,455,640
Over 90 days past due	**1,676,986**	380,720
	24,701,189	29,841,707

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.

11. AMOUNT DUE FROM JOINTLY CONTROLLED ENTITIES

The balances as at 30 June 2013 comprise (i) loans to Hota (USA) with interest accrued thereon amounting to HK$124,676,769 (31 December 2012: HK$147,540,782) which are unsecured, interest bearing at 10% (31 December 2012: 8.5% to 10%) per annum and have become matured as at 30 June 2013; and (ii) loans to the subsidiary of Hota (USA) amounting to HK$106,599,171 (31 December 2012: HK$33,983,734) 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 30 June 2013 and up to the date of this report, no formal agreement has been signed in relation to the capitalisation of the loans.

12. TRADE AND OTHER PAYABLES

	Unaudited 30 June 2013 *HK$*	Audited 31 December 2012 *HK$*
Trade payables *(note (a))*	**29,902,784**	26,999,204
Other payables and accrual *(note (b))*	**41,218,768**	12,736,660
	71,121,552	39,735,864

Notes:

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

	Unaudited 30 June 2013 *HK$*	Audited 31 December 2012 *HK$*
0 – 30 days	**5,401,092**	10,532,989
31 – 60 days	**7,377,658**	7,283,710
61 – 90 days	**3,439,596**	3,589,519
Over 90 days	**13,684,438**	5,592,986
	29,902,784	26,999,204

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.

(b) As at 30 June 2013, deposits with a total sum of HK$16,100,000 were received from several subscribers of the convertible bonds of the Company. Pursuant to the respective subscription agreements, the deposits should be refunded to the respective subscribers if the condition precedents are not fulfilled on or before 4 July 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

Operation and Financial Review

Revenue

During the period under review, the Group's financial results was principally derived from its Intercard subsidiary which is engaged in the 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 has also formally commenced its trading of scrapped metals business in late March 2013.

The Group's smartcard business result was disappointing, faced with a difficult and competitive business environment during the first half of 2013, characterized by on-going price pressures and drop in demand for mobile SIM cards. The new module packaging and testing service business commenced commercial production in 2012Q4, and is starting operations serving its initial customers. During the period under review, despite with an initial revenue contribution of HK$8.5 million from the module packaging and testing service business, the Group's revenue generated from the smartcard business (including module packaging and testing service) was HK$55.2 million, down by HK$7.9 million or 12.5% as compared to the corresponding period in 2012 of HK$63.1 million. The decrease was due to both lower order volumes and price-cuts that have been offered to select card packaging customers in exchange for greater sales volume. The use of pre-paid mobile SIM cards appears to be in slight decline with the increased use smart phones, leading Intercard to increasingly focus on securing non-telecommunications applications for its smart card manufacturing services.

Based on the existing sales backlogs, the management believes that seasonal demand improvement from the telecommunication market will be evident in the coming quarter. Moreover, the management is also exploring China and overseas customers for the new smartcard IC module packaging and testing services which 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.

Revenue generated from the provision of management and financial consultancy services amounted to HK$2.4 million during the period under review, representing an increase of HK$0.3 million as compared to the corresponding period in last year of HK$2.1 million.

The Group's new trading of scrapped metal business recorded a revenue of HK$0.9 million during the period under review. This segment is expected to be ramped up in late Q3 or early Q4 this year.

Cost of Sales and Gross Profit

During the period under review, cost of sales increased by HK$3.9 million, or 7.5%, from HK$51.8 million for the corresponding period of 2012, to HK$55.7 million. The increase in cost of sales was largely attributable to an additional approximately HK$5.4 million in direct costs and overheads incurred (e.g. salary, depreciation charge and various factory overheads) in relation to the module packaging and testing service business (which had commenced commercial production in 2012Q4 and was still in its ramp-up stage in 2013Q2).

As a result, gross profit dropped to HK$2.8 million, down by HK$10.7 million, or 79.2%, as compared to the corresponding period in last year of HK$13.5 million.

Other Income

Other revenue of HK$9.4 million (six months ended 30 June 2012: HK$9.5 million which was represented by interest income arising from the amount due from a jointly controlled entity and bank deposits of HK$6.1 million as well as interest income arising from amortization of available-for-sale financial assets of HK$3.4 million) was mainly comprised of interest income arising from the amount due from jointly controlled entities and bank deposits of HK$8.9 million plus sundry revenue of HK$0.5 million.

Other Gains or Losses

During the period under review, other losses amounted to HK$0.47 million (six months ended 30 June 2012: HK$1.07 million which was represented by the exchange losses of HK$1.12 million net off by the gain on disposal of fixed assets of HK$0.05 million) which was primarily represented by the exchange losses arising from the foreign currency-based transactions.

Selling and Distribution Costs

Selling and distribution costs increased by 5.6% over the corresponding period in 2012 to HK$3.35 million (six months ended 30 June 2012: HK$3.17 million), and was mainly attributable to the increases in various expenses associated with the new module packaging and testing service business but partly offset by the drop of certain expenses for smartcard business due to the drop in sales.

Administrative Expenses

Administrative expenses recorded an increase of HK$0.5 million or 3.5% over the corresponding period in 2012 to HK$15.0 million (six months ended 30 June 2012: HK$14.5 million). The increase was primarily attributable to the incurrence of various administrative expenses (e.g. salary, rentals and office depreciation etc.) of a total of HK$1.3 million for the Group's new businesses, namely, the trading of scrapped metals in Taiwan, which were formally commenced business in late 2013Q1, but partly offset by the drop of certain expenses for traditional smartcard business of HK$0.8 million due to the drop in sales.

Finance Costs

During the period under review, the Group's finance costs amounted to HK$0.55 million (six months ended 30 June 2012: HK$0.70 million).

Share of Losses of a Jointly Controlled Entity

During the period under review, the Group did not recognize any further losses of Hota, a jointly controlled entity, as the Group's share of losses of Hota, has exceeded the interest in the jointly controlled entity (six months ended 30 June 2012: loss of HK$10.3 million).

Hota was loss-making in the period under review, attributable to operations being below optimal utilization levels due to the early trial period nature of establishing sourcing and delivery channels and fine tuning production. We expect commercial volumes of recycling and parts sales to increase measurably by the fourth quarter 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 period under review, the income tax expense of the Group amounted to HK$0.4 million (six months ended 30 June 2012: HK$2.5 million).

As a result of the foregoing, loss attributable to the owners of the Company for the six months ended 30 June 2013 amounted to HK$7.5 million, representing a drop of HK$1.8 million as compared to HK$9.3 million for the corresponding period in 2012.

LIQUIDITY AND FINANCIAL RESOURCES

During the period under review, the Group financed its business operations and investments with cash revenue generated from operating activities, bank loans, finance lease arrangements and net proceeds from issuance of unlisted warrants. As at 30 June 2013, the Group had cash and bank balances of HK$25.4 million, finance leases payable of HK$0.3 million and a secured bank loan of HK$34.7 million.

As at 30 June 2013, the Group had current assets of HK$339.8 million and current liabilities of HK$106.1 million. The current ratio, expressed as current assets over current liabilities, was maintained at a satisfactory level of 3.2.

GEARING RATIO

The gearing ratio of the Group, expressed as a percentage of total bank borrowings to total assets of the Group, was 6.5% as at 30 June 2013 (31 December 2012: 6.6%). Accordingly, the financial position of the Group remains liquid.

EMPLOYEE INFORMATION

As at 30 June 2013, the Group employed a total of 537 employees, of which 14 were located in Hong Kong and the rest were located in the PRC. Employee cost, including directors' remuneration, was HK$18.9 million for the period under review. The Group remunerates its employees based on their performance, experience and the prevailing industry practice. In addition to basic salaries and participation in mandatory provident fund scheme, staff benefits include medical scheme and share options.

SIGNIFICANT INVESTMENTS

Save as disclosed under section headed "Business and Operation Review" and "Notes to the Unaudited Interim Financial Statements" above, there were no other significant investments for the period ended 30 June 2013.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group made no material acquisitions or disposals of subsidiaries and affiliated companies during the six months ended 30 June 2013.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed under section headed "Business and Operation Review" and "Notes to the Unaudited Interim Financial Statements" above, there were no future plans for material investments or capital assets as at 30 June 2013.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposures to currency risk arise from its overseas sales and purchases, which are primarily denominated in Renminbi ("RMB"), Great British Pounds ("GBP"), Euro ("EUR") and United Stated Dollars ("US$"). These are not the functional currencies of the Group entities to which these transactions relate.

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

The policy to manage foreign currency risk has been followed by the Group since prior years and is considered to be effective.

POST BALANCE SHEET EVENT

On 5 July 2013, a total of 62,750,000 convertible bonds in the aggregate principal amount of HK$16,942,500 were issued to four Subscribers, namely Kantor Holdings Limited, Clear Win Investments Limited, Mr. Wang Jun Sheng and Ms. Luo Li Lei, in accordance with the terms of the Subscription Agreements. For more information, please refer to the announcements of the Company dated 20 June 2013, 26 June 2013 and 5 July 2013.

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

As at 30 June 2013, the interests or short position of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein, or which were required, pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Name of director	Nature of interest	Long/short Position	Number of shares of the Company	Number of Underlying shares of the Company	Approximate percentage of interest in the Company's issued share capital
Lily Wu *(Note 1)*	Beneficial owner	Long	1,000,000	5,000,000	0.19
Chang Wei Wen	Beneficial owner	Long	5,250,000	–	0.17
Yang Meng Hsiu	Beneficial owner	Long	43,000,000	–	1.36

Note:

1. These include 5,000,000 share options conferring rights to subscribe for 5,000,000 shares.

Save as disclosed above, as at 30 June 2013, none of the Directors and chief executives or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein, or which were required, pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2013, the following persons/companies had interest or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying voting rights to vote in all circumstances at general meetings of any other member of the Group:

Long positions in shares of the Company

Name of shareholders	Type of interests	Long/short position	Number of shares of the Company	Approximate percentage of interests
Golden Dice Co., Ltd. *(Note 1)*	Beneficial	Long	504,885,125	15.97
Best Heaven Limited *(Note 1)*	Beneficial	Long	315,565,000	9.98
Mr. Tsai Chi Yuan *(Note 1)*	Interests in controlled company	Long	820,450,125	25.95

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 30 June 2013, the Directors are not aware of any other persons or corporation (other than the Directors and chief executive of the Company) having an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital rights to vote in all circumstances at general meetings of any other member of the Group.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The corporate governance principles of the Company emphasise a quality Board, sound internal controls, transparency and accountability to all shareholders. Throughout the six months ended 30 June 2013, the Group compiled with the code provisions in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules, except for the code provision A2.1 stipulated in the following paragraphs.

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

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

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

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

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules.

Having made specific enquiry by the Company, all Directors have confirmed that they have compiled with the required standard set out in such code of conduct throughout the six months ended 30 June 2013.

AUDIT COMMITTEE

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

The Group's unaudited results for the three months and the six months ended 30 June 2013 have been reviewed by the audited committee.

COMPETING INTERESTS

As at 30 June 2013, none of the directors or the management shareholders or any of their respective associates (as defined under the GEM Listing Rules) of the Company had any interest in a business that competed or might compete with the business of the Group directly or indirectly.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2013, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities.

For and on behalf of the Board
Lily Wu
Chairman

Hong Kong, 12 August 2013