PHOENITRON

Phoenitron Holdings Limited

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

Annual Report **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.

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

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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
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Nanyang Commercial Bank Limited
The Hongkong and Shanghai Banking Corporation Limited

AUDITORS

BDO Limited

WEBSITE ADDRESS

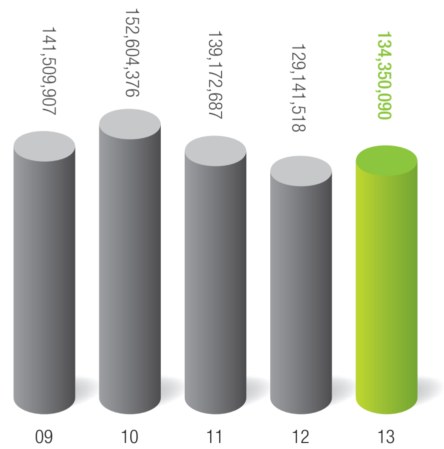
www.phoenitron.com

STOCK CODE

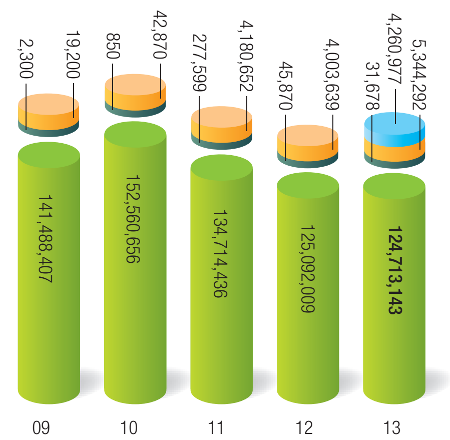
8066

Financial Highlights

TURNOVER

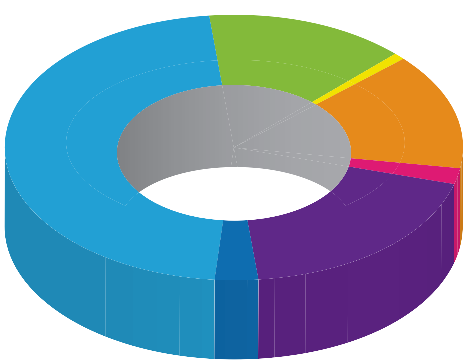


TURNOVER BY SEGMENTS



- Smart Cards and Plastic Cards Manufacturing
- Smart Cards Application Systems
- Service Income
- Trading of scrap metals

TOTAL ASSETS AT 31 DECEMBER 2013



1%	Other Assets
14%	Property, plant and equipment
2%	Inventories
19%	Trade and other receivables
3%	Bank balances and cash
47%	Amount due from a joint venture
14%	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 2013.

RESULTS

For the year ended 31 December 2013, the Company recorded a consolidated revenue of HK$134,350,000 (2012: HK$129,142,000) and loss attributable to the owners of the Company of HK$141,014,000 (2012: HK$12,292,000).

DIVIDEND

The Board of Directors (the "Board") of the Company does not recommend any payment of a final dividend for the year ended 31 December 2013.

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 scrap metals 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 traditional smartcard business result was disappointing, faced with a difficult and competitive business environment during the first half of 2013, and characterized by on-going price pressures and drop in demand for mobile SIM cards. The use of prepaid 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 (e.g. dual-interface cards and contactless cards for payment, membership, identity and security applications).

On the other hand, the new module packaging and testing service business, which had commenced commercial production in 2012Q4, has started operations serving its initial customers and contributed an initial revenue of HK$14.9 million during the year under review. However, this business is still in its initial qualifications stage with many new customers, with capacity remaining under-utilized, thus generating a gross loss which weighed down the overall gross profit margin. The management is also exploring China and overseas customers for the new smartcard IC module packaging and testing services and expect that commercial production shall continue to ramp up throughout of 2014. 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.

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 2013, the Group recorded a revenue of approximately HK$5,344,000.

Trading business of scrap metals

During the year under review, a subsidiary in Taiwan has been set up for the international trading business of scrap metals. The operation for trading of scrap metals started by the end of 2013Q1 and has contributed an initial revenue of HK$4,261,000.

With new machines being set up in Taiwan by end of 2014Q1, this segment is expected to ramp up in late Q2 of 2014.

Investment in a joint venture

During the period under review, the Group did not recognize any further losses of Hota, a joint venture, as the Group's share of losses of Hota has exceeded the interest in the joint venture (2012: loss of HK$17.7 million).

FINANCING OVERVIEW

During the year under review, the Company had entered into separate subscription agreements with each of Clear Win Investments Limited, Kantor Holdings Limited, Mr. Wang Jun Sheng and Ms. Luo Li Lei (together, the "Subscribers") in relation to the issue of convertible bonds of the Company (the "Convertible Bonds"). Completion of the issuance of the Convertible Bonds took place on 5 July 2013 and the Convertible Bonds in the aggregate principal amount of HK$16,942,500 were issued to the Subscribers in accordance with the terms of the Subscription Agreements.

The Directors consider raising funds by issuing Convertible Bonds is justifiable considering the then market conditions which represent an opportunity for the Company to enhance its working capital and strengthen its capital base and financial position for the existing and the possible future investments of the Group. The Directors consider that the issue of the Convertible Bonds is an appropriate means of raising additional capital for the Company since it will not have an immediate dilution effect on the shareholding of the existing Shareholders.

PROSPECTS

Looking forward, we expect 2014 will continue to 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 traditional 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. It is also expected that the businesses of trading of scrap metals and the IC module packaging and testing service business shall ramp up commercial production in late 2014Q2 and second half of 2014 respectively which shall contribute revenue and profits for the Company.

Subsequently to the year end, the Company had entered into the non-legally binding Letter of Intent with Shanghai Dong Fu Petroleum Chemical Sales Co., Ltd. in relation to the possible formation of a joint venture (the "Possible Formation of JV") in Shanghai, PRC for the purpose of the setting up and operations of natural gas stations in Yangtze River Delta and other petroleum chemical related businesses (the "Project").

Chairman's Statement

The Directors believe that the Possible Formation of JV, if successful, will be an important step for the Group's business development in the energy sector in the PRC. The Directors also believe that the Possible Formation of JV and the consummation of the Project will provide additional income to the Group so as to strengthen our revenue base. Further, in view of the increase in environmental awareness and strong demand of natural gas domestically, the Directors considered that the implementation of the Project is in the line with the business direction of the Group. The preliminary plan of the Company is that the JV Company shall use its best endeavours to establish 10 natural gas refueling stations during the first year after formation and approximately 70 natural gas refueling stations (in any event not less than 50 natural gas refueling stations) shall be established within three years after the formation of the JV 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 extend our gratitude to all members of the Board and staff for their dedication and contribution to the Group throughout the year 2013. 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, 26 March 2014

FINANCIAL REVIEW

Revenue

During the year 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, the trading of scrap metals and also the provision of management and financial consultancy services.

During the year under review, despite with an initial revenue contribution of HK$14.9 million (2012: HK$1.6 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$124.7 million, down slightly by HK$0.4 million or 0.3% as compared to the corresponding period in 2012 of HK$125.1 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 prepaid 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.

Revenue generated from the provision of management and financial consultancy services amounted to HK$5.3 million during the year under review, representing an increase of 33.5% as compared to the corresponding period in last year of HK$4.0 million.

The Group's new trading of scrap metal business recorded a revenue of HK$4.3 million during the year under review. This segment is expected to ramp up in the 2nd quarter of 2014.

Cost of Sales and Gross Profit

During the year under review, cost of sales increased by HK$28.2 million, or 28.3%, from HK$99.7 million for the corresponding period of 2012, to HK$127.9 million. The increase in cost of sales was largely attributable to an additional approximately HK$24.9 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 under-utilized as it undergoes qualification from new customers).

As a result, gross profit dropped to HK$6.4 million, down by HK$23.0 million, or 78.1%, as compared to the corresponding period in last year of HK$29.4 million. Due to the aforesaid, gross profit margin for the period under review dropped to 4.8%, as compared to 22.8% for the corresponding period in 2012.

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$31.9 million (2012: HK$21.3 million) was mainly comprised of interest income arising from amount due from a joint venture, loan receivable and bank deposits of HK$30.4 million (2012: HK$12.2 million), while no interest income arising from amortisation of available-for-sale financial assets (2012: HK$7.3 million), plus sundry revenue.

Fair Value Loss on a Financial Derivative

The Group's investment in the Series A preferred shares of Hota (USA) is accounted for as an available-for-sale financial asset with a derivative component arising from the conversion right of the Series A preferred shares which is stated at fair value of HK$58,739,964 (2012: HK$133,956,378) as at 31 December 2013. Due to the prolonged postponement of Hota's operations commencement in the PRC and having taken various factors into account, a fair value loss on a financial derivative of HK$75,216,414 was recognised in 2013 (2012: gain of HK$381,378).

Impairment Loss on Amount due from a Joint Venture

Due to the prolonged delay in HOTA's operations commencement in the PRC, the expected repayment dates of the loans were affected and postponed accordingly. Based on expected repayment schedule, the present value of the loans was impaired and a loss of HK$60.5 million was recognized.

Other Gains or Losses

During the year under review, other losses amounted to HK$1.1 million (2012: HK$1.9 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 4.4% over the corresponding period in 2013 to HK$6.9 million (2012: HK$6.6 million), and was mainly attributable to the increases in various expenses associated with the new module packaging and testing service business but sightly offset by the drop of certain expenses for smartcard business due to the drop in sales.

Administrative Expenses

Administrative expenses recorded a drop of HK$3.4 million or 9.9% over the corresponding period in 2012 to HK$30.8 million (2012: HK$34.2 million). In 2012, a total of HK$5.3 million of various pre-operating costs 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) were incurred. The drop was represented by the absence of the above costs but partly offset by the increase in various administrative expenses (e.g. salary, rentals and office depreciation etc.) of a total of HK$2.1 million for the Group's new businesses, namely, the trading of scrap metals in Taiwan, which formally commenced business in late 2013Q1.

Finance Costs

During the year under review, the Group's finance costs amounted to HK$3.0 million (2012: HK$1.3 million), the increase was due primarily to the issuance of certain convertible bonds of the Company.

Share of Losses of a Joint Venture

During the period under review, the Group did not recognize any further losses of Hota, a joint venture, as the Group's share of losses of Hota has exceeded the interest in the joint venture (2012: loss of HK$17.7 million).

Income Tax Expense

During the year under review, income tax expense of the Group amounted to HK$1.9 million (2012: HK$1.5 million).

As a result of the foregoing, loss attributable to the owners of the Company in 2013 amounted to HK$141.0 million, representing an increase of 1,047.2% as compared to a loss of HK$12.3 million in 2012.

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 and convertible bonds. As at 31 December 2013, the Group had cash and bank balances of HK$15.1 million, finance leases payable of HK$0.15 million and secured bank loans of HK$38.2 million.

As at 31 December 2013, the Group had current assets of HK$306.4 million and current liabilities of HK$106.8 million. The current ratio, expressed as current assets over current liabilities, was 2.87.

EMPLOYEE INFORMATION

As at 31 December 2013, the Group employed a total of 535 employees, of which 13 were located in Hong Kong and the rest were located in the PRC. Employee cost, including directors' remuneration, was HK$40.1 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 2013. 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 2013.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in the "Business and Operation Review" and the "Chairman's Statement" sections, there were no future plans for material investments or capital assets.

CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

At 31 December 2013, certain machinery and equipment with the carrying amounts of HK$25,690,628 and bank deposits of HK$3,009,616 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, its subsidiaries and a director of the Company have provided guarantees of repayment in respect of the facilities for bank loans and finance leases of the Group amounting to HK$71,700,000 (2012: HK$69,000,000), of which HK$38,199,595 (2012: HK$33,738,126) was utilised and outstanding as at 31 December 2013.

GEARING RATIO

The gearing ratio of the Group, expressed as a percentage of total borrowings to total assets of the Group, was 14.9% as at 31 December 2013 (2012: 6.6%). Accordingly, the financial position of the Group remains liquid.

FINAL DIVIDEND

The Directors does not recommend any payment of a final dividend for the year ended 31 December 2013 (2012: 0.2 HK cents per share).

COMPETING INTERESTS

As at 31 December 2013, none of the directors or the management shareholders or any of its respective associates (as defined under the GEM Listing Rules) of the Company had any interest in a business that competed or might compete with the business of the Group directly or indirectly.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2013, the Company repurchased a total of 3,590,000 of its own shares on the Stock Exchange at an aggregate consideration (before expenses) of HK$686,690. All the repurchased shares were subsequently cancelled after the year end.

Particulars of the repurchases are as follows:

Date of repurchase	No. of Shares	Price per share		Aggregate Price
		Highest	Lowest	
		HK$	HK$	HK$
December	3,590,000	0.200	0.182	686,690

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 Friday, 9 May 2014, 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 Wednesday, 7 May 2014 to Friday, 9 May 2014 (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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Monday, 5 May 2014.

The Board is pleased to present this Corporate Governance Report for the year ended 31 December 2013.

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 2013 with the exception of the code provision A.2.1 which requires that the roles of chairman and chief executive officer should be separated 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 2013.

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 separated 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 2013, 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
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	2/4	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 2013 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 2013 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	2/4
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 2013 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 2013. 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	0/1
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	0/1
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 2013, 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	530

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 2013, 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 23 to 24.

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 2013, there has been no significant change in the Company's constitutional documents.

Profiles of Directors and Senior Management

EXECUTIVE DIRECTORS

Lily WU, aged 51, is an executive Director and the Chairman of the Company. She was appointed as Director of the Company in June 2005. Ms. Wu has 27 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 37, 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 37, 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 8 years of experience in product planning and brand name marketing business.

INDEPENDENT NON-EXECUTIVE DIRECTORS

LEUNG Ka Kui Johnny, aged 57, 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 29 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 49, 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 26 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, a fellow member of the Taxation Institute of Hong Kong 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 49, 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 20 years of experience in the field of accounting, taxation, finance and trust. He is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants, a Certified Practising Accountant of CPA Australia, and a founding member of the Macau Society of Certified Practising Accountants. Mr. Chan holds a Bachelor of Economics degree from the University of Sydney. Mr. Chan holds the position of executive director of ENM Holdings Limited and independent non-executive director of each of Nature Flooring Holding Company Limited, Hong Kong Finance Group 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 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 and delisted in December 2012. Mr. Chan joined the company in February 2007.

SENIOR MANAGEMENT

LAU Ka Chung, aged 41, is the financial controller and the Company Secretary of the Group. Mr. Lau has over 17 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.

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 2013.

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, trading of scrap metals and the provision of management and financial consultancy services.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2013 are set out in the consolidated statement of profit or loss and other comprehensive income on page 25.

The Directors do not recommend any payment of a final dividend for the year ended 31 December 2013 (2012: 0.2 HK cents per share).

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 35 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, Ms. Lily Wu and Mr. Chang Wei Wen 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 33 and 34 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$255,658,215 reserves available for distribution.

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

As at 31 December 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 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	0.19
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 31 December 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 Rules 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2013, 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	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 31 December 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 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	
	2013	2012
Emolument bands		
Nil – HK$1,000,000	7	7
HK$1,000,001 – HK$1,500,000	0	1

The biographies of members of the senior management team at the date of this annual report are disclosed in the section on Profiles 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	33.6%
– five largest customers in aggregate	67.4%

Purchases

– the largest supplier	18.6%
– five largest suppliers in aggregate	40.8%

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 98 of the annual report.

AUDITORS

The financial statements for the year ended 31 December 2013 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, 26 March 2014

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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 25 to 97, which comprise the consolidated and the company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other 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 2013 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,
26 March 2014

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2013

	Notes	2013 HK$	2012 HK$
Revenue	6	**134,350,091**	129,141,518
Cost of sales		**(127,912,184)**	(99,701,027)
Gross profit		**6,437,907**	29,440,491
Other income	7	**31,870,797**	21,293,508
Fair value (loss)/gain on a financial derivative	23(a)	**(75,216,414)**	381,378
Other gains and losses, net	8	**(1,111,305)**	(1,897,393)
Selling and distribution costs		**(6,923,371)**	(6,631,283)
Administrative expenses		**(30,790,826)**	(34,165,257)
Impairment loss on amount due from a joint venture	26	**(60,535,365)**	–
Finance costs	9	**(2,961,596)**	(1,303,678)
Share of profits/(losses) of an associate		**130,223**	(269,078)
Share of losses of a joint venture		**–**	(17,674,003)
Loss before income tax	10	**(139,099,950)**	(10,825,315)
Income tax expense	11	**(1,913,869)**	(1,466,716)
Loss for the year	12	**(141,013,819)**	(12,292,031)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Changes in fair value of available-for-sale financial assets		**1,496,067**	(9,999,347)
Exchange gain on translation of financial statements of foreign operations		**2,181,982**	2,663,558
Other comprehensive income for the year		**3,678,049**	(7,335,789)
Total comprehensive income for the year		**(137,335,770)**	(19,627,820)
		HK cents	HK cents
Loss per share	14		
– Basic and diluted		**(4.480)**	(0.405)

Consolidated Statement of Financial Position

As at 31 December 2013

	Notes	2013 HK$	2012 HK$
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	19	60,361,649	73,072,916
Intangible asset	20	420,000	420,000
Prepayments for acquisition of property, plant and equipment		1,549,900	1,879,941
Interest in an associate	22	996,282	866,058
Long-term financial assets	23	60,246,854	133,967,201
		123,574,685	210,206,116
Current assets			
Inventories	24	10,760,260	8,300,248
Trade and other receivables	25	80,489,309	70,080,356
Amount due from a joint venture	26	200,030,990	181,524,516
Tax recoverable		–	27,868
Pledged bank deposits	27	3,009,616	565,720
Cash and cash equivalents	28	12,087,545	39,783,378
		306,377,720	300,282,086
Current liabilities			
Trade and other payables	29	56,592,349	39,735,864
Borrowings	30	49,437,096	33,592,627
Current tax liabilities		779,764	–
		106,809,209	73,328,491
Net current assets		199,568,511	226,953,595
Total assets less current liabilities		323,143,196	437,159,711
Non-current liabilities			
Borrowings	30	–	145,499
Convertible bonds	31	14,622,664	–
Deferred tax liabilities	32	4,707	4,707
		14,627,371	150,206
Net assets		308,515,825	437,009,505
EQUITY			
Share capital	33	63,236,700	60,886,700
Share subscription received		–	30,000,000
Reserves	35	245,279,125	346,122,805
Total equity		308,515,825	437,009,505

Lily Wu
Director

Chang Wei Wen
Director

Statement of Financial Position

As at 31 December 2013

	Notes	2013 HK$	2012 HK$
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	19	454,035	641,663
Interests in subsidiaries	21	145,342,356	145,707,645
		145,796,391	146,349,308
Current assets			
Other receivables	25	1,418,272	1,896,721
Amount due from a joint venture	26	200,030,990	181,524,516
Tax recoverable		–	156,854
Cash and cash equivalents	28	2,330,795	12,360,705
		203,780,057	195,938,796
Current liabilities			
Other payables	29	2,168,093	1,519,292
Interest bearing borrowing		11,237,500	–
Current tax liabilities		1,293,268	–
		14,698,861	1,519,292
Net current assets		189,081,196	194,419,504
Total assets less current liabilities		334,877,587	340,768,812
Non-current liability			
Convertible bonds	31	14,622,664	–
Net assets		320,254,923	340,768,812
EQUITY			
Share capital	33	63,236,700	60,886,700
Share subscription received		–	30,000,000
Reserves	35	257,018,223	249,882,112
Total equity		320,254,923	340,768,812

Lily Wu
Director

Chang Wei Wen
Director

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	2013 HK$	2012 HK$
Cash flows from operating activities		
Loss before income tax	(139,099,950)	(10,825,315)
Adjustments for:		
Depreciation	19,367,990	16,859,351
Exchange difference, net	1,004,758	798,957
Fair value loss/(gain) on a financial derivative	75,216,414	(381,378)
Finance costs	2,961,596	1,303,678
Loss/(Gain) on disposal of property, plant and equipment	4,818	(148,177)
Interest income	(30,410,623)	(19,484,542)
Impairment loss on amount due from a joint venture	60,535,365	–
Provision for impairment on trade receivables	–	206,238
Share of losses of a joint venture	–	17,674,003
Share of (profits)/losses of an associate	(130,223)	269,078
Write down of inventories to net realisable value	–	447,026
Operating (loss)/profit before working capital changes	(10,549,855)	6,718,919
Increase in inventories	(2,460,012)	(3,632,664)
(Increase)/decrease in trade and other receivables	(10,408,953)	16,967
Increase in trade and other payables	16,856,485	9,463,667
Cash (used in)/generated from operations	(6,562,335)	12,566,889
Interest paid for bank loans	(1,436,631)	(1,263,936)
Income taxes paid	(1,106,237)	(3,308,427)
Net cash (used in)/generated from operating activities	(9,105,203)	7,994,526
Cash flows from investing activities		
Interest received	37,278	76,584
Increase in amount due from a joint venture	(48,668,494)	(36,778,509)
(Increase)/decrease in pledged bank deposits	(2,443,896)	16,840,532
Purchase of property, plant and equipment	(5,288,277)	(34,968,744)
Prepayments for acquisition of property, plant and equipment	–	(1,879,941)
Proceeds from disposal of property, plant and equipment	–	354,585
Net cash used in investing activities	(56,363,389)	(56,355,493)

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	2013 HK$	2012 HK$
Cash flows from financing activities		
Capital element of finance leases payments	(276,399)	(256,935)
Interest element of finance leases payments	(20,277)	(39,742)
Dividends paid	(6,323,670)	(6,051,950)
Proceeds from issue of unlisted warrants	–	4,000,000
Proceeds from exercising unlisted warrants	12,300,000	30,000,000
Unlisted warrants issue expenses	–	(101,500)
Proceeds from shares issued	–	9,000,000
Proceeds from new bank loans	19,828,982	15,960,321
Proceeds from shareholders' loans	7,362,500	–
Proceeds from other loan	3,875,000	–
Proceeds from issue of convertible bonds	16,730,063	–
Convertible bonds issue expenses	(57,563)	–
Repayments of bank loans	(15,091,113)	(20,172,917)
Repurchase of shares	(688,764)	(2,710,587)
Net cash generated from financing activities	37,638,759	29,626,690
Net decrease in cash and cash equivalents	(27,829,833)	(18,734,277)
Cash and cash equivalents at 1 January	39,783,378	58,320,328
Effect of foreign exchange rate changes	134,000	197,327
Cash and cash equivalents at 31 December	12,087,545	39,783,378

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	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*/ (Accumulated loss) 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
Issue of non-listed warrants	–	–	–	–	–	–	–	3,898,500	–	3,898,500
2011 final dividend approved *(note 13(b))*	–	–	(6,046,350)	–	–	–	–	–	–	(6,046,350)
Shares repurchase *(note 33(a))*	(157,400)	–	(2,553,187)	–	–	–	–	–	–	(2,710,587)
Issue of shares upon exercise of non-listed warrants *(note 33 (b))*	500,000	–	8,987,313	–	–	–	–	(487,313)	–	9,000,000
Cash paid by warrant holders to subscribe shares	–	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 and 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 approved *(note 13(b))*	–	–	(6,323,670)	–	–	–	–	–	–	(6,323,670)
Expenses incurred in relation to issue of convertible bonds *(note 31)*	–	–	–	–	(57,563)	–	–	–	–	(57,563)
Recognition of equity component of convertible bonds *(note 31)*	–	–	–	–	3,612,087	–	–	–	–	3,612,087
Share repurchase *(note 33(a))*	–	–	(616,964)	–	(71,800)	–	–	–	–	(688,764)
Issue of shares upon exercise of non-listed warrants *(note 33 (b))*	2,350,000	(30,000,000)	42,240,369	–	–	–	–	(2,290,369)	–	12,300,000
Transactions with owners	2,350,000	(30,000,000)	35,299,735	–	3,482,724	–	–	(2,290,369)	–	8,842,090
Loss for the year	–	–	–	–	–	–	–	–	(141,013,819)	(141,013,819)
Other comprehensive income										
– Change in fair value of available-for-sale financial assets	–	–	–	–	–	–	1,496,067	–	–	1,496,067
– Translation of foreign operations	–	–	–	–	–	2,181,982	–	–	–	2,181,982
Total comprehensive income for the year	–	–	–	–	–	2,181,982	1,496,067	–	(141,013,819)	(137,335,770)
At 31 December 2013	**63,236,700**	**–**	**249,769,808**	**1,360,008**	**3,482,731**	**17,386,926**	**91,768**	**1,120,818**	**(27,932,934)**	**308,515,825**

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

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") during the year include the manufacturing and sales of smart cards and plastic cards, the provision of customised smart card application systems, the provision of financial and management consultancy services which was provided to its joint venture and trading of scrap metals.

The financial statements for the year ended 31 December 2013 were approved for issued by the board of directors on 26 March 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These financial statements on pages 25 to 97 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 (the "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/revised 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 judgment of current events and actions, actual results may ultimately differ from those estimates and assumptions. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Group's financial statements, are disclosed in note 4.

2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (note 2.3) made up to 31 December each year.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

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

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

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 joint arrangements

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate. Where unrealised losses provide evidence of impairment of the asset transferred they are recognised immediately in profit or loss.

The group is a party to a joint arrangement where there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Associates and joint arrangements (Continued)

The group classifies its interests in joint arrangements as either:

– *Joint ventures:* where the group has rights to only the net assets of the joint arrangement; or

– *Joint operations:* where the group has both the rights to assets and obligations for the liabilities of the joint arrangement.

In assessing the classification of interests in joint arrangements, the Group considers:

– The structure of the joint arrangement;

– The legal form of joint arrangements structured through a separate vehicle;

– The contractual terms of the joint arrangement agreement; and

– Any other facts and circumstances (including any other contractual arrangements).

In consolidated financial statements, an investment in an associate or a joint venture 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 joint venture 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 joint venture's profit or loss in the period in which the investment is acquired.

Under the equity method, the Group's interest in the associate or joint venture is carried at cost and adjusted for the post-acquisition changes in the Group's share of the associate's or joint venture'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 joint venture for the year, including any impairment loss on the investment (note 2.18) in associate or joint venture recognised for the year. The Group's share of the other comprehensive income of the associate or joint venture is included in the other comprehensive income of the Group.

Profits and losses arising on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associates or joint ventures. 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 joint venture 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 joint venture's accounting policies to those of the Group.

When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or the joint venture 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 joint venture.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Foreign currencies

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

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

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

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rates at the reporting date. Income and expenses have been converted into the Hong Kong dollars at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the translation reserve in equity.

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

2.6 Property, plant and equipment

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

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

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Property, plant and equipment (Continued)

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.

2.8 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Financial assets (Continued)

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

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

(i) Loans and receivables

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Financial assets (Continued)

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

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Financial assets (Continued)

Impairment of financial assets (Continued)

(i) Financial assets carried at amortised cost (Continued)

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.

2.9 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, debt component of convertible bonds, 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.

Convertible bonds

Convertible bonds issued by the Group that contain both the liability and conversion option components are classified separately into their respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the conversion option for the holder to convert the bonds into equity, is included in equity (other reserves).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Financial liabilities (Continued)

Convertible bonds (Continued)

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in other reserves until the embedded option is exercised (in which case the balance stated in other reserves will be transferred to share premium). Where the option remains unexercised at the expiry dates, the balance stated in other reserves will be released to the retained earnings. No gain or loss is recognised upon conversion or expiration of the option.

Finance lease liabilities

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

Borrowings

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

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

Trade and other payables

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

2.13 Financial guarantee contracts

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

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount i.e. the amount initially recognised less accumulated amortisation, where appropriate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Leases

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

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(i) Assets acquired under finance leases

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

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

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

(ii) Operating lease charges as the lessee

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

2.15 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 joint arrangements are subject to impairment testing whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

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

In respect of non-financial assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Share-based employee compensation (Continued)

Estimates are subsequently revised, if there is any indication that the number of equity instruments expected to vest differs from previous estimates.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the vested share options are later forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

2.21 Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

2.22 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 joint arrangements, 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 arrangement of the other entity (or an associate or joint arrangement of a member of a group of which the other entity is a member).

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

(iv) One entity is a joint arrangement 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 2013

In the current year, the Group has applied for the first time the following new or revised 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 2013:

HKFRSs (Amendments)	Annual Improvements 2009 – 2011 Cycle
HKFRSs (Amendments)	Annual Improvements 2010 – 2012 Cycle
HKFRSs (Amendments)	Annual Improvements 2011 – 2013 Cycle
Amendments to HKAS 1(Revised)	Presentation on Items of Other Comprehensive Income
Amendments to HKFRS 7	Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 19 (revised 2011)	Employee Benefits
HKAS 27 (revised 2011)	Separate Financial Statements
HKAS 28 (revised 2011)	Investments in Associates and Joint Ventures
Amendments to HKFRS 1	Government loans
HK (IFRIC*) – Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine

* IFRIC represents the International Financial Reporting Standards Interpretation Committee

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

HKFRSs (Amendments) – Annual Improvements 2009-2011 Cycle

HKAS 1 has been amended to clarify that an opening statement of financial position is required only when a retrospective application of an accounting policy, a retrospective restatement or reclassification has a material effect on the information presented in the opening position. Further, this opening statement of financial position does not have to be accompanied by comparative information in the related notes. This is consistent with the Group's existing accounting policy.

HKFRSs (Amendments) – Annual Improvements 2010-2012 Cycle

The Basis of Conclusions for HKFRS 13 Fair Value Measurement was amended to clarify that short-term receivables and payables with no stated interest rate can be measured at their invoice amounts without discounting, if the effect of discounting is immaterial. This is consistent with the Group's existing accounting policy.

3. ADOPTION OF NEW OR REVISED HKFRSS (Continued)

(a) Adoption of new/revised HKFRSs – effective 1 January 2013 (Continued)

Amendments to HKAS1 (Revised) – 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 or loss in the future and those that may not. Tax on items of other comprehensive income is allocated and disclosed on the same basis.

The Group has adopted the amendments retrospectively for the financial year ended 31 December 2013. Items of other comprehensive income that may and may not be reclassified to profit or loss in the future have been presented separately in the consolidated statement of profit or loss and other comprehensive income. The comparative information has been restated to comply with the amendments. As the amendments affect presentation only, there are no effects on the Group's financial position or performance.

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 12 disclosures are provided in notes 21, 22, and 23. As the new standard affects only disclosure, there is no effect on the Group's financial position and performance.

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 is applied prospectively.

HKFRS 13 did not materially affect any fair value measurements of the Group's assets and liabilities and therefore has no effect on the Group's financial position and performance. The standard requires additional disclosures about fair value measurements and these are included in notes 40.6. Comparative disclosures have not been presented in accordance with the transitional provisions of the standard.

3. ADOPTION OF NEW OR REVISED HKFRSS (Continued)

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

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

HKFRS 9	Financial Instruments
Amendments to HKFRS 9, HKFRS 7 and HKAS 39	Hedge Accounting
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment entities[1]
Amendments to HKAS 19 (2011)	Defined Benefit Plans: Employee Contributions[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
HK (IFRIC) 21	Levies[1]
HKFRSs (Amendments)	Annual Improvements 2010-2012 Cycle[3]
HKFRSs (Amendments)	Annual Improvements 2011-2013 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 Effective for annual periods beginning, or transactions occurring, on or after 1 July 2014

Amendments to HKAS 32 – Offsetting Financial Assets and Financial Liabilities

The amendments clarify the offsetting requirements by adding appliance guidance to HKAS 32 which clarifies when an entity "currently has a legally enforceable right to set off" and when a gross settlement mechanism is considered equivalent to net settlement.

HKFRS 9 – Financial Instruments

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or 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. HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

The Group is in the process of making an assessment of the potential impact of the new/revised HKFRSs and the Directors so far concluded that the application of these new/revised HKFRSs will have no material impact on the Group's financial statements. In respect of the other new/revised HKFRS, the Directors anticipate that more disclosures would be made but are not yet in a position to state whether they would have material financial impact on the Group's financial statements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(i) Allowance for bad and doubtful debts

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

(ii) Allowance for inventories

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

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

As mentioned in note 23(a), the Group's investment in the Shares A preferred shares of Hota (USA) Holding Corp. is measured at fair value which is determined based on an income approach using discounted 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 40.6.

(iv) Impairment of non-financial assets

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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(v) Impairment loss assessment in respect of amount due from a joint venture

The policy for making impairment loss on amount due from a joint venture is based on the evaluation of collectability of the account and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of the joint venture. As at 31 December 2013, the Group's and the Company's carrying amount of amount due from a joint venture amounted to HK$200,030,990 (2012: HK$181,524,516), net of impairment loss of HK$60,535,365 (2012: nil).

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. During the year, one more operating segment, trading of scrap metals, was identified, after the commencement of the Group's relevant operations in Taiwan. Given that the new business is an individual operating segment that is separately reviewed by the executive directors, therefore the trading of scrap metals business is considered as a separate reportable segment. The segment information for the year ended 31 December 2012 has been reclassified to align with the presentation of the latest segment information disclosure. The Group is currently organised into the following four operating segments:

- Sales of smart cards and plastic cards;
- Sales of smart card application systems;
- Financial and management consultancy services; and
- Trading of scrap metals.

The financial and management consultancy services are provided to the joint venture 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 joint venture 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.

5. SEGMENT INFORMATION (Continued)

Segment results, segment assets and segment liabilities

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

2013

	Sales of smart cards and plastic cards HK$	Sales of smart card application systems HK$	Financial and management consultancy services HK$	Trading of scrap metals HK$	Corporate/ Unallocated HK$	Consolidated HK$
Reportable segment revenue	124,713,144	31,678	5,344,292	4,260,977	–	134,350,091
Reportable segment profit/(loss)	(28,400,836)	(23,079)	35,585,062	(3,832,842)	–	3,328,305
Fair value loss on a financial derivative						(75,216,414)
Finance costs						(2,961,596)
Impairment loss on amount due from a joint venture						(60,535,365)
Share of profits of an associate						130,223
Unallocated interest income						37,278
Corporate expenses, net						(3,882,381)
Loss before income tax						(139,099,950)

5. SEGMENT INFORMATION (Continued)

Segment results, segment assets and segment liabilities (Continued)

	Sales of smart cards and plastic cards HK$	Sales of smart card application systems HK$	Financial and management consultancy services HK$	Trading of scrap metals HK$	Corporate/ Unallocated HK$	Consolidated HK$
Reportable segment assets	116,734,949	12,175	202,172,912	5,634,641	14,113,831	338,668,508
Interest in an associate						996,282
Long-term financial assets						60,246,854
Intangible asset						420,000
Proceeds receivable from partial disposal of a joint venture						14,523,600
Pledged bank deposits						3,009,616
Bank balances and cash						12,087,545
Total consolidated assets						429,952,405
Reportable segment liabilities	54,034,903	30,620	333,000	358,732	1,835,094	56,592,349
Borrowings						49,437,096
Convertible bonds						14,622,664
Current tax liabilities						779,764
Deferred tax liabilities						4,707
Total consolidated liabilities						121,436,580

						Consolidated HK$
Other information						
Depreciation	18,897,675	–	187,628	282,687	–	19,367,990
Interest income	–	–	30,373,345	–	37,278	30,410,623
Additions to specified non-current assets	4,550,639	–	–	1,067,679	–	5,618,318

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 systems HK$	Financial and management consultancy services HK$	Trading of scrap metals HK$	Corporate/ Unallocated HK$	Consolidated HK$
Reportable segment revenue	125,092,009	45,870	4,003,639	–	–	129,141,518
Reportable segment profit/(loss)	(9,217,115)	20,886	15,724,711	(1,641,429)	–	4,887,053
Fair value gain on a financial derivative						381,378
Finance costs						(1,303,678)
Share of losses of a joint venture						(17,674,003)
Share of losses of an associate						(269,078)
Unallocated interest income						7,350,055
Corporate expenses, net						(4,197,042)
Loss before income tax						(10,825,315)

5. SEGMENT INFORMATION (Continued)

Segment results, segment assets and segment liabilities (continued)

	Sales of smart cards and plastic cards HK$	Sales of smart card application systems HK$	Financial and management consultancy services HK$	Trading of scrap metals HK$	Corporate/ Unallocated HK$	Consolidated HK$
Reportable segment assets	121,297,954	8,265	184,062,900	1,692,580	13,272,678	320,334,377
Interest in an associate						866,058
Long-term financial assets						133,967,201
Intangible asset						420,000
Proceeds receivable from partial disposal of a joint venture						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	280,800	1,650	1,564,078	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)

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	
	2013 HK$	2012 HK$	**2013 HK$**	2012 HK$
Denmark, France, United Kingdom	**45,366,780**	54,020,755	**–**	–
Hong Kong	**307,448**	476,072	**1,513,220**	1,820,217
India, Indonesia, Singapore	**20,373,917**	33,142,929	**–**	–
Mauritius and South Africa	**5,477,520**	603,299	**–**	–
The PRC, excluding Hong Kong	**51,289,268**	36,679,631	**60,138,949**	73,528,027
Others	**11,535,158**	4,218,832	**1,675,662**	890,671
Total	**134,350,091**	129,141,518	**63,327,831**	76,238,915

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 during the reporting period is as follows:

	2013 HK$	2012 HK$
Customer A	**45,148,699**	53,935,044
Customer B	**15,553,845**	18,772,532
Customer C	**N/A[1]**	22,257,786

1 The corresponding revenue did not contribute over 10% of total revenue of the Group during the current year.

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:

	2013 HK$	2012 HK$
Sales of smart cards and plastic cards	124,713,144	125,092,009
Sales of smart card application systems	31,678	45,870
Service income	5,344,292	4,003,639
Trading of scrap metals	4,260,977	–
	134,350,091	129,141,518

7. OTHER INCOME

	2013 HK$	2012 HK$
Interest income *(note)*	30,410,623	19,484,542
Sundry income	1,460,174	1,808,966
	31,870,797	21,293,508

Note:

Interest income comprises interest income arising from amount due from a joint venture (note 26), loan receivable (note 25(b)) and bank deposits (note 28) in aggregate which are financial assets not at fair value through profit or loss, while no interest income arising from amortisation of available-for-sale financial assets (note 23(a)) (2012: HK$7,273,471).

8. OTHER GAINS AND LOSSES, NET

	2013 HK$	2012 HK$
(Loss)/Gain on disposal of property, plant and equipment	(4,818)	148,177
Exchange losses, net	(1,106,487)	(2,045,570)
	(1,111,305)	(1,897,393)

9. FINANCE COSTS

	2013 HK$	2012 HK$
Interest charges on bank loans wholly repayable within five years *(note)*	1,137,421	1,263,936
Interest element of finance lease payments	20,277	39,742
Interest on convertible bonds	1,504,688	–
Interest charges on other borrowings	299,210	–
	2,961,596	1,303,678

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 2013 and 2012, interest charges on bank borrowings which contain a repayment on demand clause amounted to HK$890,292 and HK$1,145,441 respectively.

10. LOSS BEFORE INCOME TAX

	2013 HK$	2012 HK$
Loss before income tax is arrived at after charging:		
Auditors' remuneration	530,000	480,000
Costs of inventories recognised as expenses	127,912,184	99,701,027
Depreciation		
– Owned assets	19,192,870	16,684,231
– Leased assets	175,120	175,120
	19,367,990	16,859,351
Employee benefit expenses *(note 15)*	40,910,564	34,213,474
Operating lease charges on land and buildings	7,399,323	6,889,424
Provision for impairment on trade receivables	–	206,238
Research and development costs	28,787	147,566
Write down of inventories to net realisable value[1]	–	447,026

[1] included in cost of inventories recognised as expenses.

11. INCOME TAX EXPENSE

	2013 HK$	2012 HK$
Current tax		
Hong Kong Profits Tax:		
Current year	1,908,255	2,453,550
Over provision in prior year	(92,785)	(1,647,260)
	1,815,470	806,290
PRC Enterprise Income Tax ("EIT")		
Current year	98,399	660,426
Total income tax expense	1,913,869	1,466,716

Hong Kong Profits Tax has been provided at the rate of 16.5% (2012: 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% (2012: 25%).

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

	2013 HK$	2012 HK$
Loss before income tax	(139,099,950)	(10,825,315)
Income tax at Hong Kong Profits Tax rate of 16.5% (2012: 16.5%)	(22,951,492)	(1,786,176)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(2,516,789)	(1,587,018)
Tax effect of non-deductible expenses	25,188,546	6,871,949
Tax effect of non-taxable income	(3,726,804)	(3,385,329)
Tax effect of tax losses not recognised	6,110,757	2,870,371
Tax effect of other temporary differences not recognised	(97,564)	228,633
Over provision in prior year	(92,785)	(1,647,260)
Others	–	(98,454)
Income tax expense	1,913,869	1,466,716

12. LOSS FOR THE YEAR

Of the consolidated loss for the year, a loss of HK$29,355,979 (2012: profit of HK$16,610,637) has been dealt with in the financial statements of the Company.

13. DIVIDENDS

(a) Dividends attributable to the year

	2013 HK$	2012 HK$
No final dividend was proposed (2012: 0.2 HK cents per share)	–	6,238,670

The Board does not recommend any payment of a final dividend year ended 31 December 2013.

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

	2013 HK$	2012 HK$
Final dividend in respect of the previous financial year of 0.2 HK cents (2012: 0.2 HK cents) per share	6,323,670	6,046,350

14. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss for the year of HK$141,013,819 (2012: HK$12,292,031) and the weighted average of 3,147,280,205 (2012: 3,032,556,466) ordinary shares in issue during the year.

(b) Diluted loss per share

No adjustment has been made to the basic loss per share as the outstanding share options and warrants are anti-dilutive effect on the basic loss per share for the year ended 31 December 2013 and 2012.

15. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	2013 HK$	2012 HK$
Salaries, wages and other benefits	36,481,455	31,247,511
Contributions to defined contribution retirement plans	4,429,109	2,965,963
	40,910,564	34,213,474

16. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' emoluments for the years ended 31 December 2013 and 2012 are as follows:

2013

Name	Fee HK$	Salaries, allowances and benefits in kind HK$	Discretionary bonus HK$	Retirement scheme contributions HK$	Total HK$
Executive Directors:					
Lily Wu *(note)*	–	338,613	–	15,000	353,613
Chang Wei Wen	–	840,000	–	27,000	867,000
Yang Meng Hsiu	–	180,000	–	9,000	189,000
	–	1,358,613	–	51,000	1,409,613
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	1,358,613	–	51,000	1,619,613

16. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

2012

Name	Fee HK$	Salaries, allowances and benefits in kind HK$	Discretionary bonus HK$	Retirement scheme contributions HK$	Total HK$
Executive Directors:					
Lily Wu *(note)*	–	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

Note:

Ms. Lily Wu is also the Chief Executive Officer of the Company and her emoluments disclosed above include those for services rendered by her as the chief executive officer.

Miss Leung Quan Yue, Michelle 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 (2012: nil).

There was no arrangements under which a director waived or agreed to waive any emoluments during the year (2012: nil).

17. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals include one (2012: one) director whose remuneration is disclosed in note 16. The aggregate emoluments of the remaining four (2012: four) highest paid individuals are as follows:

	2013 HK$	2012 HK$
Salaries and allowances	2,002,522	2,653,104
Contributions to retirement scheme	58,750	55,000
	2,061,272	2,708,104

The emoluments fell within the following bands:

	Number of individuals	
	2013	2012
Emolument bands		
Nil – HK$1,000,000	4	3
HK$1,000,001 – HK$1,500,000	–	1

18. RETIREMENT SCHEMES

Under the Mandatory Provident Fund Schemes Ordinance regulated by the Mandatory Provident Fund Schemes Authority in Hong Kong, with effect from 1 December 2000, the Group participates in a Mandatory Provident Fund retirement benefits scheme (the "MPF scheme") operated by an approved trustee in Hong Kong and makes contributions for its eligible employees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income. 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$4,429,109 (2012: HK$2,965,963). No forfeited contribution is available for offset against existing contributions during the reporting period (2012: nil).

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 2012						
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
Year ended 31 December 2013						
Opening net book amount	**54,478,044**	**1,545,923**	**2,695,736**	**12,112,937**	**2,240,276**	**73,072,916**
Additions	**4,228,348**	**158,587**	**1,231,383**	**–**	**–**	**5,618,318**
Disposals	**–**	**(4,818)**	**–**	**–**	**–**	**(4,818)**
Depreciation	**(14,825,876)**	**(455,766)**	**(772,720)**	**(2,597,622)**	**(716,006)**	**(19,367,990)**
Exchange differences	**631,504**	**31,600**	**62,638**	**300,343**	**17,138**	**1,043,223**
Closing net book amount	**44,512,020**	**1,275,526**	**3,217,037**	**9,815,658**	**1,541,408**	**60,361,649**
At 31 December 2013						
Cost	**143,041,821**	**4,430,505**	**6,725,541**	**18,331,332**	**4,166,504**	**176,695,703**
Accumulated depreciation	**(98,529,801)**	**(3,154,979)**	**(3,508,504)**	**(8,515,674)**	**(2,625,096)**	**(116,334,054)**
Net book amount	**44,512,020**	**1,275,526**	**3,217,037**	**9,815,658**	**1,541,408**	**60,361,649**

19. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group (Continued)

As at 31 December 2013, a motor vehicle with net book value of HK$408,613 (2012: HK$583,733) has been held under finance lease. The capital value of the motor vehicle at the inception of lease amounted to HK$800,000.

Certain printing and testing equipment is pledged for the Group's bank facilities as further detailed in note 37.

The Company

	Office equipment HK$	Furniture and fixtures HK$	Leasehold improvements HK$	Total HK$
At 1 January 2012				
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
Year ended 31 December 2013				
Opening net book amount	**77,939**	**177,833**	**385,891**	**641,663**
Depreciation	**(22,736)**	**(52,049)**	**(112,843)**	**(187,628)**
Closing net book amount	**55,203**	**125,784**	**273,048**	**454,035**
At 31 December 2013				
Cost	**113,681**	**260,244**	**564,212**	**938,137**
Accumulated depreciation	**(58,478)**	**(134,460)**	**(291,164)**	**(484,102)**
Net book amount	**55,203**	**125,784**	**273,048**	**454,035**

20. INTANGIBLE ASSET

	China driving licence HK$
At 1 January 2012, 31 December 2012 and 31 December 2013	
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	
	2013 HK$	2012 HK$
Unlisted shares, at cost	**26,954,990**	26,954,990
Amounts due from subsidiaries	**121,329,516**	121,964,418
Less: Provision for impairment	**(2,942,150)**	(3,211,763)
	145,342,356	145,707,645

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 principal subsidiaries, which are all wholly-owned, as at 31 December 2013 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	Smart card and plastic card manufacturing and sales
Cardlink Technology (HK) Limited	Hong Kong, limited liability company	HK$10,000 ordinary share	Investment holding
Elegant Future (HK) Limited	Hong Kong, limited liability company	HK$1 ordinary shares	Investment holdings and trading of scrap vehicles/metals
Elegant Future (Taiwan) Company Limited	Taiwan, limited liability company	NTD50,000,000 ordinary shares	Trading and dismantling of scrap vehicles/metals
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
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$100 ordinary share	Investment holding and sales of smart cards and raw materials
Topwise Technology (SZ) Limited	PRC, wholly-foreign-owned enterprises	HK$10,000,000	Smart card and plastic card manufacturing and sales
Waystech Group Limited	BVI, limited liability company	US$10,000 ordinary share	Investment holding
北京萬利時智能科技有限公司	PRC, wholly-foreign-owned enterprises	HK$10,311,900	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	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

	2013 HK$	2012 HK$
Share of net assets	**996,282**	866,058

Details of the Group's associate as at 31 December 2013 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	The PRC	Renminbi ("RMB") 5,000,000	20%	Real estate advisory

The associate has a reporting date of 31 December. The summarised financial information of the associate is as follows:

	2013 HK$	2012 HK$
Profit/(loss) for the year and total comprehensive income	**651,117**	(2,195,677)
The Group's share	**130,223**	(269,078)

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

23. LONG-TERM FINANCIAL ASSETS

	2013 HK$	2012 HK$
Investment in Hota (USA) *(note (a))*	**58,088,796**	131,809,143
Investment in Guangzhou Tecsun *(note (b))*	**2,158,058**	2,158,058
	60,246,854	133,967,201

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 2013, Hota (USA) had equity holdings in the entire issued share capital of an entity established in the PRC which is principally engaged in the business of disintegration of used automobiles and sale of metals derived from automobiles (the "Resources Recycling Business"). As at 31 December 2013, the Group is interested in (i) 83.33% (2012: 83.33%) of the Series A preferred shares of Hota (USA), which entitle the Group to receive 5% non-cumulative dividends and are redeemable at 100% of the principal amount in the 3rd quarter of 2012; and (ii) 35.29% (2012: 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 2013, the Group is interested in 57.81% (2012: 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 and decision is taken by simple majority. Accordingly, the directors regard Hota (USA) as a joint venture 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$77,140,515 (2012: HK$75,644,448) as at 31 December 2013. A derivative component arising from the conversion right of the Series A preferred shares which is stated at fair value of HK$58,739,964 (2012: HK$133,956,378) as at 31 December 2013 and fair value loss of HK$75,216,414 (2012: gain of HK$381,378) was recognised in profit or loss during the year.

The Group's investment in the common shares of Hota (USA) is accounted for as interest in a joint venture. For the year ended 31 December 2013, no share of profit or losses of Hota (USA) and its subsidiary (the "Hota Group") is recognised by the Group (2012 : loss of HK$17,674,003). The losses are applied to and has reduced all of the Group's investment in the Series A preferred shares of Hota (USA) which are in substance part of the Group's long-term investment in Hota Group.

	2013 HK$	2012 HK$
Investment in Series A preferred shares		
Available-for-sale financial asset	**77,140,515**	75,644,448
Derivative component	**58,739,964**	133,956,378
	135,880,479	209,600,826
Interest in a joint venture	**(77,791,683)**	(77,791,683)
	58,088,796	131,809,143

23. LONG-TERM FINANCIAL ASSETS (Continued)

Notes: (Continued)

(a) (Continued)

Details of Hota (USA) and its principal subsidiary as at 31 December 2013 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% (2012: 35.29%) 83.33% (2012: 83.33%)	Investment holding
張家港永峰泰環保科技有限公司 (Hota Auto Recycling Corporation)*	The PRC	USD20,000,000		Resources recycling business

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

The Resources Recycling Business has started commercial production but has not yet utilised its full production capacity and generated operating profits during the reporting period.

23. LONG-TERM FINANCIAL ASSETS (Continued)

Notes: (Continued)

(a) (Continued)

Hota Group has a reporting date of 31 December. Summarised financial information in relation to the joint venture is presented below:

	2013 HK$	2012 HK$
As at 31 December		
Non-current assets	292,608,058	305,644,293
Current assets	38,183,315	31,359,789
Current liabilities	(623,057,022)	(359,803,330)
Non-current liabilities	(93,000,000)	(276,185,319)
Net liabilities	(385,265,649)	(298,984,567)
Included in the above amounts are:		
Cash and cash equivalents	73,122	6,147,857
Current financial liabilities (excluding trade and other payable)	(519,219,265)	(302,080,582)
Non-current financial liabilities (excluding other payable and provision)	(93,000,000)	(276,185,319)
Year ended 31 December		
Revenue	18,283,103	16,849,670
Loss for the year and total comprehensive income	(81,132,106)	(80,707,994)
Dividends received by the group from the joint venture	–	–
Included in the above amounts are:		
Depreciation and amortisation	11,495,655	11,394,918
Interest income	(395,237)	(34,771)
Interest expense	32,873,360	23,764,099
Income tax expense	–	–

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

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"), an entity established in the PRC with paid up registered capital of RMB41,700,000.

	2013 HK$	2012 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 Guanzhou 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

	2013 HK$	2012 HK$
Raw materials	**8,003,961**	5,702,874
Work-in-progress	**1,643,437**	2,180,030
Finished goods	**1,112,862**	417,344
	10,760,260	8,300,248

25. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2013 HK$	2012 HK$	**2013 HK$**	2012 HK$
Trade receivables	**39,295,229**	30,047,945	**–**	–
Less: Provision for impairment of trade receivables	**–**	(206,238)	**–**	–
Trade receivables, net *(note (a))*	**39,295,229**	29,841,707	**–**	–
Other receivables, deposits and prepayments *(note (b))*	**41,194,080**	40,238,649	**1,418,272**	1,896,721
	80,489,309	70,080,356	**1,418,272**	1,896,721

25. TRADE AND OTHER RECEIVABLES (Continued)

Notes:

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

	2013 HK$	2012 HK$
0 – 30 days	17,142,005	16,753,468
31 – 90 days	17,748,439	11,172,847
Over 90 days	4,404,785	1,915,392
	39,295,229	29,841,707

At each reporting date, the Group reviews trade receivables for evidence of impairment on both an individual and collective basis. As at 31 December 2013, none of the Group's trade receivables (2012: HK$206,238) which were aged over 120 days have been identified as impaired and accordingly, no provision (2012: HK$206,238) has been made in respect of these receivables.

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

	2013 HK$	2012 HK$
Carrying amount at 1 January	206,238	390,902
Impairment losses recognised	–	206,238
Amounts written off as uncollectible	(206,238)	(390,902)
Carrying amount at 31 December	–	206,238

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

	2013 HK$	2012 HK$
Neither past due nor impaired	25,675,523	21,668,198
1 – 30 days past due	5,770,318	5,337,149
31 – 90 days past due	6,023,379	2,455,640
Over 90 days past due	1,826,009	380,720
	39,295,229	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.

25. TRADE AND OTHER RECEIVABLES (Continued)

Notes: (continued)

(b) Other receivables of 2012 and 2013 included the outstanding consideration in relation to a partial disposal of interests in Hota (USA) in 2011 amounting to approximately USD1,862,000 (equivalent to HK$14,523,600) (2012: USD1,862,000 (equivalent to HK$14,523,600)). Pursuant to the purchase agreement, the outstanding consideration would be fully settled by 23 April 2012. However, as at 31 December 2013, the amount was still outstanding and the recoverability of the outstanding consideration were uncertain, the management considered whether it was necessary to impair the balance.

As the 28,000 common shares of Hota (USA) are still held by the Group on behalf of the buyer as collateral, the fair value of the collateral held should be taken into account when estimating the impairment loss on the receivable. The provision for impairment loss on the outstanding consideration is considered to be immaterial to the financial statements after taking the fair value of the 28,000 common shares into account.

Prepayments of 2012 and 2013 included the deposit payment in relation to purchases of scrap vehicles amounting to HK$13,234,500 (2012: HK$13,234,500).

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

26. AMOUNT DUE FROM A JOINT VENTURE

The balances as at 31 December 2013 comprise (i) loans to Hota (USA) with interest accrued thereon amounting to HK$134,941,673 which are unsecured, interest bearing at 8.5% to 10% (2012: 8.5% to 10%) per annum; and a loan to the Hota Auto Recycling Corporation, a wholly owned subsidiary of Hota (USA) amounting to HK$125,624,682 (2012: HK$33,983,734) which is unsecured, interest bearing at 10% to 15% (2012: 10%) per annum (collectively the "Loans"). The loans are repayable on demand.

In 2011, the Group entered into a series of loan agreements with the joint venture with terms in relation to a possible capitalisation for the Loans, in case the joint venture failed to repay the Loans together with any interest accrued. With reference to the announcement on 14 March 2014, the Group had requested repayment of the Loans due from Hota Auto Recycling Corporation and had applied to the relevant authorities in Jiangsu, the PRC for debt confirmation in this respect. An impairment of HK$60,535,365 was provided for the year ended 31 December 2013. The Group did not hold any collateral over the Loans.

27. PLEDGED BANK DEPOSITS

The deposits as at 31 December 2013 were interest-free and did not have specified maturity date and were pledged to secure a term loan facility and revolving demand loan.

28. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$	HK$	**HK$**	HK$
Cash at banks and in hand	**12,087,545**	39,783,378	**2,330,795**	12,360,705

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$	HK$	**HK$**	HK$
Denominated in:				
RMB	**3,245,159**	10,310,346	**–**	–
Hong Kong Dollars	**3,327,279**	20,200,292	**1,933,433**	12,218,553
US Dollars	**1,321,381**	1,115,014	**397,362**	142,152
New Taiwan Dollars	**4,187,926**	8,157,726	**–**	–
Other currencies	**5,800**	–	**–**	–
	12,087,545	39,783,378	**2,330,795**	12,360,705

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

As at the reporting date, cash of the Group denominated in RMB amounted to HK$3,245,159 (2012: HK$10,310,346). 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		The Company	
	2013	2012	**2013**	2012
	HK$	HK$	**HK$**	HK$
Trade payables	**39,217,887**	26,999,204	**–**	–
Other payables and accrual	**17,374,462**	12,736,660	**2,168,093**	1,519,292
	56,592,349	39,735,864	**2,168,093**	1,519,292

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:

	The Group	
	2013	2012
	HK$	HK$
0 – 30 days	**9,287,804**	10,532,989
31 – 60 days	**6,708,881**	7,283,710
61 – 90 days	**5,710,812**	3,589,519
Over 90 days	**17,510,390**	5,592,986
	39,217,887	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.

30. BORROWINGS

	2013	2012
	HK$	HK$
Current liabilities		
Secured bank loans *(note (a))*	**38,054,097**	33,316,228
Obligations under finance leases *(note (b))*	**145,499**	276,399
Other borrowings *(note (c))*	**11,237,500**	–
	49,437,096	33,592,627
Non-current liabilities		
Obligations under finance leases *(note (b))*	**–**	145,499
Total borrowings	**49,437,096**	33,738,126

30. BORROWINGS (Continued)

Note:

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

	2013 HK$	2012 HK$
Current liabilities		
Portion of term loans due for repayment within one year	26,172,036	17,331,188
Portion of term loans due for repayment after one year which contain a repayment on demand clause	11,882,061	15,985,040
Total bank loans	38,054,097	33,316,228

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

	2013 HK$	2012 HK$
Portion of term loans due for repayment within one year	26,172,036	17,331,188
Portion of term loans due for repayment after one year		
In the second year	6,014,879	7,592,523
In the third to fifth year	5,867,182	8,392,517
	11,882,061	15,985,040
Total bank loans	38,054,097	33,316,228

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 2013, HK$14,789,935 (2012: HK$22,137,930) were arranged at fixed annual interest rates of 3.65% to 4.25% (2012: 3.00% to 4.25%). The remaining balance of the Group's bank borrowings of HK$23,264,162 (2012: HK$11,178,298) were arranged at floating rates of LIBOR plus 1.5% per annum and HIBOR plus 2.5% per annum (2012: LIBOR plus 1.75% per annum and HIBOR plus 2.5% per annum).

30. BORROWINGS (Continued)

Note: (Continued)

(a) (Continued)

The interest-bearing bank loans, including the term loans repayable on demand, are carried at amortised cost. Certain 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 37, and corporate guarantees provided by the Company and its subsidiaries as disclosed in note 39.

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

	Total minimum lease payments		Present value of minimum lease payments	
	2013	2012	**2013**	2012
	HK$	HK$	**HK$**	HK$
Amount payable:				
Within one year	**148,338**	296,676	**145,499**	276,399
In the second year	**–**	148,338	**–**	145,499
In the third to fifth year	**–**	–	**–**	–
	148,338	445,014	**145,499**	421,898
Future finance charges	**(2,839)**	(23,116)	**–**	–
Finance lease obligations	**145,499**	421,898	**145,499**	421,898

The Group entered into finance leases 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 respective finance leases. All leases are repayable in fixed monthly principal installments plus interest and no arrangements have been entered into for contingent rental payments. The above leases were secured by corporate guarantees provided by the Company, its subsidiaries and a director of the Company.

(c) The amounts are unsecured, carries interest at 5% per annum and repayable on demand. As at 31 December 2013, Included in other loans were amounts advanced from certain shareholders of HK$7,362,500.

31. CONVERTIBLE BONDS

In July 2013, the Company issued HK$16,942,500 settled convertible bonds with 10% coupon per annum due in one lump sum upon the maturity date or the early redemption date (as appropriate) in the aggregate principal amount of HK$16,942,500 to two shareholders and two independent third parties, respectively. The issue of the convertible bonds was completed on 5 July 2013.

The principal terms of the convertible bonds are as follows:

(i) Optional conversion

Each bond will, at the option of the bondholders, be convertible (unless previously redeemed, converted or purchased and cancelled) on or after 5 July 2013 up to and including 4 July 2015 into fully paid ordinary shares of the Company (the "Shares") with a par value of HK$0.02 each at a conversion price of HK$0.27 per share. A total of 62,750,000 Shares will be allotted and issued upon full conversion of the convertible bonds at the conversion price with HK$16,942,500 principal amount of the convertible bonds.

(ii) Redemption at maturity

Unless previously redeemed, converted, or purchased and cancelled, the convertible bonds will be redeemed on 4 July 2015 at an amount equal to HK$16,942,500.

(iii) Early redemption by the Company

The Company may at any time prior to the maturity date and from time to time redeem the convertible bonds at 100% of the outstanding principal amount, in whole or in part, in cash. The bondholders can then within 15 business days after the date of such notice convert any outstanding amount of the convertible bonds into the Shares at the conversion price of HK$0.27. Upon the expiry of 15 business day after the date of such notice given by the Company, the Company shall redeem the outstanding principal amount of the convertible bonds, together with any interest or other payment that has accrued thereon in accordance with the relevant convertible bonds.

As the functional currency of the Company is HK$, the conversion of the convertible bonds will be settled by exchange of a fixed amount of cash in HK$ with a fixed number of the Company's equity instruments. In accordance with the requirements of HKAS 39 Financial instruments – Recognition and Measurement, the convertible bonds are separated into a liability component consisting of the straight debt and an equity component representing the conversion options of the bondholders to convert the convertible bonds into equity. The proceeds received from the issue of the convertible bonds have been split as follows:

(i) Liability component represents the fair value of the contractually determined stream of cash flows discounted at the prevailing market interest rate applicable to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion features. The interest charged for the year is calculated by applying an effective interest rate of 23.79% to the liability component since the convertible bonds were issued.

(ii) Equity component represents the conversion options, which is determined by deducting the fair value of the liability component from the proceeds of issue of the compound financial instrument as a whole.

31. CONVERTIBLE BONDS (Continued)

The fair value of the liability component of the convertible bonds was calculated using the discounted cash flow model. The major inputs used in the model as at 5 July 2013 were as follows:

	Liability component of the Company
Risk-free rate	0.24%
Expected life	2 years
Credit spread	3.38%

Any changes in the major inputs used in the model will result in changes in the fair value of the liability component. The variables and assumptions used in calculating the fair value of the liability component are based on the director's best estimate.

The movement of the liability and equity components of the convertible bonds for the year is set out below:

	Liability component HK$	Equity component HK$	Total HK$
Issue of convertible bonds	13,330,413	3,612,087	16,942,500
Transaction costs on issue of convertible bonds	(212,437)	(57,563)	(270,000)
Interest charged during the year	1,504,688	–	1,504,688
At 31 December 2013	14,622,664	3,554,524	18,177,188

32. 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$61,704,286 as at 31 December 2013 (2012: HK$24,669,396). 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$7,968,881 (2012: HK$6,319,433) do not have expiry period. Under the current tax legislation in the PRC, the tax losses amounting to 53,735,405 (2012: HK$18,349,963) 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. There is no unremitted earnings (2012: HK$14,229,204) as at 31 December 2013.

The Company

As at 31 December 2013, the Company had no significant unprovided deferred taxation (2012: nil).

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33. SHARE CAPITAL

	2013 Par value per share HK$	2013 Number of shares	2013 Nominal value HK$	2012 Par value per share HK$	2012 Number of shares	2012 Nominal value HK$
Authorised:						
Ordinary shares						
At 1 January and 31 December	0.02	5,000,000,000	100,000,000	0.02	5,000,000,000	100,000,000

	2013 Par value per share HK$	2013 Number of shares	2013 Nominal value HK$	2012 Par value per share HK$	2012 Number of shares	2012 Nominal value HK$
Issued and fully paid:						
Ordinary shares						
At 1 January	0.02	3,044,335,000	60,886,700	0.02	3,027,205,000	60,544,100
Repurchase of shares *(note (a))*	–	–	–	0.02	(7,870,000)	(157,400)
Issue of shares upon exercise of non-listed warrants *(note (b))*	0.02	117,500,000	2,350,000	0.02	25,000,000	500,000
At 31 December	0.02	3,161,835,000	63,236,700	0.02	3,044,335,000	60,886,700

33. SHARE CAPITAL (Continued)

Notes:

(a) For the year ended 31 December 2012, the Company purchased back 7,870,000 shares over the Stock Exchange. The shares have been duly cancelled. 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

For the year ended 31 December 2013, the Company purchased back 3,590,000 shares over the Stock Exchange. The shares were still outstanding as at 31 December 2013 and subsequently cancelled in January 2014. Details of the shares repurchased during 2013 are summarised as follows:

Month of repurchase	Number of ordinary shares repurchased	Price per ordinary share Highest HK$	Lowest HK$	Aggregate purchase price HK$
December 2013	3,590,000	0.200	0.182	686,690
	3,590,000			686,690
Total expenses on shares repurchased during the year				2,074
Total				688,764

33. SHARE CAPITAL (Continued)

Notes: (Continued)

(b) For the year ended 31 December 2013, 117,500,000 (2012: 25,000,000) non-listed warrants were exercised at the subscription price of HK$0.36 (2012: HK$0.36) per share, result in the issue of 117,500,000 (2012: 25,000,000) new shares of HK$0.02 each and the transfer of a sum of HK$2,290,369 (2012: 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$63,236,700 (2012: HK$60,886,700). 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.

34. SHARE OPTION

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

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

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

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

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

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

34. SHARE OPTION (CONTINUED)

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

Name of participant	At 1 January 2013	Forfeited	At 31 December 2013	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
	5,000,000	–	5,000,000			
Weighted average exercise price (HK$)	0.186		0.186			

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			

No share options were exercised during year (2012: nil).

The options outstanding at 31 December 2013 had a weighted average remaining contractual life of 4.95 years (2012: 5.95 years).

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 lapsed on 2 July 2012.

At the end of the reporting period, the Company had 5,000,000 (2012: 5,000,000) 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.

35. 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.

Other reserves represent (i) the amount allocated to the equity component of convertible bonds issued by the Company recognised in accordance with the accounting policy adopted for convertible bonds in note 2; and (ii) the amount of share capital repurchased by the Company during the year but still outstanding at the end of the reporting period.

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. No restricted profits included in the Group's accumulated profits/losses (2012: HK$5,166,081).

35. RESERVES (Continued)

The Company

	Contributed surplus HK$	Share option reserve HK$	Other reserves HK$	Warrant reserve HK$	Retained profits/ (accumulated loss) HK$	Total HK$
At 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-listed warrants	–	–	–	3,898,500	–	3,898,500
Shares repurchase *(note 33(a))*	(2,553,187)	–	–	–	–	(2,553,187)
Issue of shares upon exercise of non-listed warrants *(note 33 (b))*	8,987,313	–	–	(487,313)	–	8,500,000
At 31 December 2012 and 1 January 2013	224,675,063	1,360,008	7	3,411,187	20,435,847	249,882,112
Loss for the year	–	–	–	–	(29,355,979)	(29,355,979)
2012 final dividend approved	(6,323,670)	–	–	–	–	(6,323,670)
Expenses incurred in relation to issue of convertible bonds	–	–	(57,563)	–	–	(57,563)
Recognition of equity component of convertible bonds *(note 31)*	–	–	3,612,087	–	–	3,612,087
Shares repurchase *(note 33(a))*	(616,964)	–	(71,800)	–	–	(688,764)
Issue of shares upon exercise of non-listed warrants *(note 33 (b))*	42,240,369	–	–	(2,290,369)	–	39,950,000
At 31 December 2013	**259,974,798**	**1,360,008**	**3,482,731**	**1,120,818**	**(8,920,132)**	**257,018,223**

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.

36. 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 2013 HK$	2012 HK$
Joint venture	Interest income earned from advances made	**30,373,345**	12,135,303
	Fees earned from providing financial and management consultancy service	**5,344,292**	4,003,639
Substantial shareholder	Consultancy fee	**660,000**	444,418
	Interest expense	**167,197**	–

Particulars of the Group's balance with the joint venture 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.

37. PLEDGE OF ASSETS

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

	The Group 2013 HK$	2012 HK$
Machinery and equipment *(note 19)*	**25,690,628**	32,449,525
Pledged bank deposits	**3,009,616**	565,720
	28,700,244	33,015,245

Apart from the above, the Group has assigned the trade receivables of certain customers to a bank to secure borrowings amounting to HK$7,617,717 (2012: HK$3,712,250) granted to the Group as at reporting date.

38. COMMITMENTS

Capital commitments

	The Group	
	2013	2012
	HK$	HK$
Capital expenditure contracted but not provided for:		
– Acquisition of plant and equipment	737,004	6,520,103

The Company does not have significant capital commitments as at the reporting date (2012: 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	
	2013	2012	2013	2012
	HK$	HK$	HK$	HK$
Within one year	7,035,427	5,270,310	713,520	632,880
In the second to fifth year, inclusive	6,311,208	6,882,322	1,702,890	77,226
	13,346,635	12,152,632	2,416,410	710,106

The Group and the Company leases a number of properties under operating leases. The leases run for an initial period of one to five years (2012: one to five years), with an option to renew the lease and renegotiate the terms at the expiry date or at dates as mutually agreed between the Group and respective landlords/lessors. None of the leases include contingent rentals.

39. FINANCIAL GUARANTEE CONTRACTS

The Company, its subsidiaries and a director of the Company have provided guarantees of repayment in respect of the facilities for bank loans and finance leases of the Group amounting to HK$71,700,000 (2012: HK$69,000,000), of which HK$38,199,595 (2012: HK$33,738,126) was utilised and outstanding as at 31 December 2013. In the opinion of the directors, the financial impact arising from providing the above financial guarantees is insignificant and accordingly, they are not accounted for in these financial statements.

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40. 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.

40.1 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	
	2013	2012	**2013**	2012
	HK$	HK$	**HK$**	HK$
Financial assets				
Loans and receivables				
– Trade and other receivables	**64,885,845**	55,624,165	**1,315,119**	1,639,022
– Pledged bank deposits	**3,009,616**	565,720	**–**	–
– Bank balances and cash	**12,087,545**	39,783,378	**2,330,795**	12,360,705
– Due from a joint venture	**200,030,990**	181,524,516	**200,030,990**	181,524,516
– Due from subsidiaries	**–**	–	**118,387,366**	118,752,665
Available-for-sale financial assets				
– Investment in the preferred shares of Hota (USA) and investment in Guangzhou Tecsun	**79,298,573**	77,802,506	**–**	–
Financial assets at fair value through profit or loss				
– Derivative component of investment in the preferred shares of Hota (USA)	**58,739,964**	133,956,378	**–**	–
	418,052,533	489,256,663	**322,064,270**	314,276,908
Financial liabilities				
Financial liabilities at amortised cost				
– Trade and other payables	**55,168,037**	38,549,025	**2,168,093**	1,519,292
– Borrowings	**49,437,096**	33,738,126	**11,237,500**	–
– Convertible bonds	**14,622,664**	–	**14,662,664**	–
	119,227,797	72,287,151	**28,068,257**	1,519,292

40. FINANCIAL RISK MANAGEMENT (Continued)

40.2 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 32% (2012: 34%) of the total trade receivables was due from the Group's largest customer and 99% (2012: 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.

40.3 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.

40. FINANCIAL RISK MANAGEMENT (Continued)

40.3 Liquidity risk (Continued)

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

	On Demand HK$	Less than 3 months HK$	Between 3 and 6 months HK$	Between 6 and 12 months HK$	Between 1 and 2 years HK$
At 31 December 2013					
Bank loans subject to a repayment on demand clause	**20,436,380**	**–**	**–**	**–**	**–**
Other bank loans	**–**	**17,724,250**	**–**	**–**	**–**
Obligations under finance leases	**–**	**74,169**	**74,169**	**–**	**–**
	20,436,380	**17,798,419**	**74,169**	**–**	**–**
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

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.

40. FINANCIAL RISK MANAGEMENT (Continued)

40.3 Liquidity risk (Continued)

The Group

	Less than 3 months or on demand 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 2013					
Trade and other payables	55,168,037	–	–	–	–
Bank loans subject to a repayment on demand clause	2,317,345	2,317,361	4,524,512	6,333,323	6,027,058
Other bank loans	17,724,250	–	–	–	–
Obligations under finance leases	74,169	74,169	–	–	–
Other borrowing	11,237,500	–	–	–	–
	86,521,301	2,391,530	4,524,512	6,333,323	6,027,058
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

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 2013					
Other payables	2,168,093	–	–	–	–
At 31 December 2012					
Other payables	1,519,292	–	–	–	–

The contractual financial guarantees provided by the Company are disclosed in note 39. 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. The contractual maturity of the financial guarantees is on demand.

40. FINANCIAL RISK MANAGEMENT (Continued)

40.4 Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk mainly arises from borrowings. Bank loans and finance lease arrangements issued at variable rates expose the Group to cash flow interest rate risk.

The Group manages interest rate risk by monitoring its interest rate profile as set out in note 30. The Group conducts periodical review to determine preferred interest rates mix appropriate for the business profile. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

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

Sensitivity analysis

The following table illustrates the sensitivity of the Group's result and equity to a possible change in interest rates of +/- 0.5% (2012:+/- 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

	2013 Decrease/ (Increase) in loss for the year and increase/ (decrease) retained earnings HK$	2012 Decrease/ (Increase) in loss for the year and increase/ (decrease) retained earnings HK$
Change in interest rate:		
+0.5%	**(97,000)**	(47,000)
- 0.5%	**97,000**	47,000

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 2012 has been prepared on the same basis.

40. FINANCIAL RISK MANAGEMENT (Continued)

40.5 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, 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

	2013				2012		
	RMB HK$	US$ HK$	EUR HK$	NTD HK$	RMB HK$	US$ HK$	EUR HK$
Trade and other receivables	2,011	46,036,299	416,728	–	–	19,604,556	–
Bank balances and cash	3,245,159	1,321,381	–	4,187,926	–	1,680,734	–
Amounts due from joint venture	28,977,461	169,717,560	–	42,034	33,983,734	147,540,782	–
Investment in Series A preferred shares							
– Available-for-sale financial asset	–	77,140,515	–	–	–	75,644,448	–
– Derivative component	–	58,739,964	–	–	–	133,956,378	–
Trade and other payables	(14,035)	(18,491,930)	–	–	(15,588)	(14,523,911)	(237,816)
Gross exposure arising from recognised financial assets and liabilities	32,210,596	334,463,789	416,728	4,229,960	33,968,146	363,902,987	(237,816)

The Company does not have any exposures to foreign currencies at the end of the reporting period (2012: nil).

40. FINANCIAL RISK MANAGEMENT (Continued)

40.5 Foreign currency risk

Sensitivity analysis

As HK$ is linked to US$, the directors consider that the Group's exposure on currency risk in respect of US$ is not significant. The following table illustrates the sensitivity of the Group's profit for the year and equity in regards to a 5% (2012: 5%) appreciation in the Group entities' functional currencies against other foreign currencies. The 5% (2012: 5%) 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

	2013 Decrease/(Increase) in loss for the year and increase/(decrease) retained earnings		2012 Decrease/(Increase) in loss for the year and increase/(decrease) retained earnings	
	RMB HK$	EUR HK$	RMB HK$	EUR HK$
Changes in exchange rate:				
HK$ appreciate by 5% (2012: 5%) against foreign currencies	(3,872,000)	(17,000)	(1,418,000)	10,000
HK$ depreciate by 5% (2012: 5%) against foreign currencies	3,872,000	17,000	1,418,000	(10,000)

The sensitivity analysis for the year ended 31 December 2012 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.

40. FINANCIAL RISK MANAGEMENT (Continued)

40.6 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 from 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 2013				
Available-for-sale financial assets				
– Investment in the preferred shares of Hota (USA)	–	–	77,140,515	77,140,515
Financial assets at fair value through profit or loss				
– Derivative component of investment in the preferred shares of Hota (USA)	–	–	58,739,964	58,739,964
	–	–	135,880,479	135,880,479

	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

40. FINANCIAL RISK MANAGEMENT (Continued)

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

Financial assets/ financial liabilities	Fair value as at 31 December 2013	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
1) Long term financial assets – available-for-sale financial asset	Investment in the preferred shares of Hota (USA) HK$77,140,515	Level 3	Discounted cash flow. The key inputs are: Discount rate	Discount rate, taking into account management's experience and knowledge of market conditions of the specific industries.
2) Long term financial assets – derivative component	Derivative component of investment in the preferred shares of Hota (USA) HK$58,739,964	Level 3	Binomial Option Pricing Model. The key inputs are: Volatility, discount rate.	Volatility, not observable and derived by calculation of implied volatility. Discount rate, taking into account management's experience and knowledge of market conditions of the specific industries.

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 which are discounted at rate of 26.1% to 28.1% 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 2015.

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:

	2013 HK$	2012 HK$
Opening balance	209,600,826	211,945,324
Total (losses)/gains recognised in profit or loss	(75,216,414)	7,654,849
Total gains/(losses) recognised in other comprehensive income	1,496,067	(9,999,347)
Closing balance	135,880,479	209,600,826

40. FINANCIAL RISK MANAGEMENT (Continued)

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

Fair value measurements and valuation processes

The Group's finance department reviews the valuations of financial instruments for financial reporting purposes, including Level 3 fair values. These valuation results are then reported to the Directors and Group senior management for discussions in relation to the valuation processes and results.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The finance department works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The finance department reports the findings to the directors of the Company regularly to explain the cause of fluctuations in the fair value of the assets and liabilities.

41. 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 2013 was 14.9% compared to 6.6% at 31 December 2012.

Financial Summary

For the year ended 31 December 2013

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 2013:

CONSOLIDATED RESULTS

	2009 HK$	2010 HK$	2011 HK$	2012 HK$	**2013** **HK$**
Revenue	141,509,907	152,604,376	139,172,687	129,141,518	**134,350,091**
Profit/(loss) from operations	18,051,846	18,313,258	165,540,537	8,421,444	**(136,268,577)**
Finance costs	(354,587)	(527,821)	(713,242)	(1,303,678)	**(2,961,596)**
Share of profits/(losses) of an associate	–	–	–	(269,078)	**130,223**
Share of losses of a joint venture	(1,161,881)	(346,924)	(73,798,214)	(17,674,003)	**–**
(Loss)/Profit before income tax	16,535,378	17,438,513	91,029,081	(10,825,315)	**(139,099,950)**
Income tax expense	(6,236,985)	(3,942,871)	(3,958,610)	(1,466,716)	**(1,913,869)**
(Loss)/Profit for the year	10,298,393	13,495,642	87,070,471	(12,292,031)	**(141,013,819)**
(Loss)/Earnings per share Basic	0.439 cents	0.537 cents	2.924 cents	(0.405) cents	**(4.480) cents**
Diluted	0.432 cents	0.507 cents	2.919 cents	(0.405) cents	**(4.480) cents**

CONSOLIDATED ASSETS AND LIABILITIES

	2009 HK$	2010 HK$	2011 HK$	2012 HK$	**2013** **HK$**
Non-current assets	115,560,556	111,666,544	209,005,802	210,206,116	**123,574,685**
Current assets	82,190,145	179,173,254	283,750,671	300,282,086	**306,377,720**
Current liabilities	33,059,216	47,867,692	69,834,106	73,328,491	**106,809,209**
Non-current liabilities	2,300,252	4,707	426,605	150,206	**14,627,371**