



PHOENITRON

PHOENITRON HOLDINGS LIMITED

品創控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8066)

INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2014

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

SUMMARY

- The Group recorded an unaudited turnover of HK\$75,659,000 for the six months ended 30 June 2014, representing an increase of 29.3% as compared with that of the corresponding period in 2013.
- The unaudited profit attributable to the owners of the Company for the six months ended 30 June 2014 was HK\$11,735,000.
- The Board does not recommend any payment of an interim dividend for the six months ended 30 June 2014.

UNAUDITED INTERIM RESULTS

The board (the “Board”) of Directors announces the unaudited consolidated results of the Company and its subsidiaries (together, the “Group”) for the three months and the six months ended 30 June 2014 together with the comparative figures for the corresponding periods in 2013 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Three months ended 30 June		Six months ended 30 June	
		2014 HK\$	2013 HK\$	2014 HK\$	2013 HK\$
Revenue	2	41,098,916	26,285,559	75,659,137	58,504,542
Cost of sales		<u>(36,259,468)</u>	<u>(24,943,541)</u>	<u>(67,858,401)</u>	<u>(55,710,903)</u>
Gross profit		4,839,448	1,342,018	7,800,736	2,793,639
Other income	3	18,010,092	5,153,532	27,801,412	9,401,197
Other gains and losses, net	4	(1,718,555)	(224,081)	(2,077,126)	(474,270)
Selling and distribution costs		(1,927,957)	(1,819,628)	(3,606,317)	(3,350,664)
Administrative expenses		(7,589,464)	(7,482,833)	(15,783,362)	(14,987,716)
Finance costs	5	(1,025,291)	(281,254)	(2,234,250)	(552,212)
Profit (Loss) before income tax		10,588,273	(3,312,246)	11,901,093	(7,170,026)
Income tax expense	6	(128,000)	(324,407)	(166,000)	(374,407)
Profit (Loss) for the period		<u>10,460,273</u>	<u>(3,636,653)</u>	<u>11,735,093</u>	<u>(7,544,433)</u>
Other comprehensive income					
Exchange (loss) gain on translation of financial statements of foreign operations		(34,955)	772,080	(479,150)	1,122,360
Other comprehensive income for the period		(34,955)	772,080	(479,150)	1,122,360
Total comprehensive income for the period		<u>10,425,318</u>	<u>(2,864,573)</u>	<u>11,255,943</u>	<u>(6,422,073)</u>
		<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Earnings (Losses) per share	8				
– Basic and diluted		<u>0.331</u>	(0.115)	<u>0.371</u>	(0.241)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	Unaudited 30 June 2014 <i>HK\$</i>	Audited 31 December 2013 <i>HK\$</i>
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		54,922,110	60,361,649
Intangible assets		420,000	420,000
Prepayment for acquisition of property, plant and equipment		2,324,238	1,549,900
Interest in an associate		996,282	996,282
Long-term financial assets		<u>60,246,854</u>	<u>60,246,854</u>
		118,909,484	123,574,685
Current assets			
Inventories	9	13,385,485	10,760,260
Trade and other receivables	10	82,328,855	80,489,309
Amount due from joint ventures	11	229,597,150	200,030,990
Pledged bank deposit		3,017,125	3,009,616
Cash and cash equivalents		<u>4,828,637</u>	<u>12,087,545</u>
		333,157,252	306,377,720
Current liabilities			
Trade and other payables	12	72,143,035	56,592,349
Borrowings		49,495,064	49,437,096
Current tax liabilities		<u>717,018</u>	<u>779,764</u>
		122,355,117	106,809,209
Net current assets		<u>210,802,135</u>	<u>199,568,511</u>
Total assets less current liabilities		<u>329,711,619</u>	<u>323,143,196</u>
Non-current liabilities			
Convertible bonds		9,935,144	14,622,664
Deferred tax liabilities		<u>4,707</u>	<u>4,707</u>
		9,939,851	14,627,371
Net assets		<u>319,771,768</u>	<u>308,515,825</u>
EQUITY			
Share capital		63,164,900	63,236,700
Reserves		<u>256,606,868</u>	<u>245,279,125</u>
Total equity		<u>319,771,768</u>	<u>308,515,825</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HK\$	Share Subscription received HK\$	Contributed surplus* HK\$	Share option reserve* HK\$	Other reserves* HK\$	Translation reserve* HK\$	Available- for-sale financial assets revaluation reserve* HK\$	Warrant reserve* HK\$	Retained profits/ (Accumulated loss)* HK\$	Total HK\$
At 1 January 2013	60,886,700	30,000,000	214,470,073	1,360,008	7	15,204,944	(1,404,299)	3,411,187	113,080,885	437,009,505
2012 final dividend paid during the period	-	-	(6,323,670)	-	-	-	-	-	-	(6,323,670)
Issue of shares upon exercise of unlisted warrants	2,350,000	(42,300,000)	42,240,371	-	-	-	-	(2,290,371)	-	-
Cash paid by warrant holders to subscribe shares	-	12,300,000	-	-	-	-	-	-	-	12,300,000
Transactions with owners	<u>2,350,000</u>	<u>(30,000,000)</u>	<u>35,916,701</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,290,371)</u>	<u>-</u>	<u>5,976,330</u>
Loss for the period	-	-	-	-	-	-	-	-	(7,544,433)	(7,544,433)
Other comprehensive income - Translation of foreign operations	-	-	-	-	-	1,122,360	-	-	-	1,122,360
Total comprehensive income for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,122,360</u>	<u>-</u>	<u>-</u>	<u>(7,544,433)</u>	<u>(6,422,073)</u>
At 30 June 2013	<u>63,236,700</u>	<u>-</u>	<u>250,386,774</u>	<u>1,360,008</u>	<u>7</u>	<u>16,327,304</u>	<u>(1,404,299)</u>	<u>1,120,816</u>	<u>105,536,452</u>	<u>436,563,762</u>
At 1 January 2014	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
Share repurchased on 2013 and cancelled during the period	(71,800)	-	-	-	71,800	-	-	-	-	-
Lapse of unlisted warrants	-	-	-	-	-	-	-	(1,120,818)	1,120,818	-
Redemption of convertible bonds	-	-	-	-	(1,208,826)	-	-	-	1,208,826	-
Transactions with owners	<u>(71,800)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,137,026)</u>	<u>-</u>	<u>-</u>	<u>(1,120,818)</u>	<u>2,329,644</u>	<u>-</u>
Profit for the period	-	-	-	-	-	-	-	-	11,735,093	11,735,093
Other comprehensive income - Translation of foreign operations	-	-	-	-	-	(479,150)	-	-	-	(479,150)
Total comprehensive income for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(479,150)</u>	<u>-</u>	<u>-</u>	<u>11,735,093</u>	<u>11,255,943</u>
At 30 June 2014	<u>63,164,900</u>	<u>-</u>	<u>249,769,808</u>	<u>1,360,008</u>	<u>2,345,705</u>	<u>16,907,776</u>	<u>91,768</u>	<u>-</u>	<u>(13,868,197)</u>	<u>319,771,768</u>

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2014	2013
	HK\$	HK\$
Net cash generated from (used in) operating activities	4,987,630	(1,007,688)
Net cash used in investing activities	(4,847,265)	(45,720,900)
Net cash (used in) generated from financing activities	<u>(7,300,566)</u>	<u>29,120,037</u>
Net decrease in cash and cash equivalents	(7,160,201)	(17,608,551)
Cash and cash equivalents brought forward	12,087,545	39,783,378
Effect of foreign exchange rate changes	<u>(98,707)</u>	<u>214,355</u>
Cash and cash equivalents carried forward	<u><u>4,828,637</u></u>	<u><u>22,389,182</u></u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This unaudited condensed consolidated financial information for the six months ended 30 June 2014 has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2013.

Except as for the adoption of new and revised HKFRSs issued by the HKICPA, which are effective for the Group’s financial year beginning 1 January 2014, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2013, as described in those annual financial statements. The Directors anticipate that the application of these new and revised HKFRSs will not have material impact on the condensed consolidated financial information of the Group.

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

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

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

In preparing these condensed consolidated financial information, the significant judgments made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended 31 December 2013.

2. SEGMENT INFORMATION AND REVENUE

The operating segments are reported in a manner consistent with the way in which information is reported internally to the executive directors for the purposes of resources allocation and assessment of segment performance. The directors have reviewed the operations of the Group for the six months ended 30 June 2014 based on its products and services and have accordingly identified four reportable operating segments as follows:

- (i) Sales of smart cards and plastic cards (including provision of module packaging and testing services);
- (ii) Sales of smart cards application systems;
- (iii) Financial and management consultancy services; and
- (iv) Trading of scrap metals;

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

2014

	Sales of smart cards and plastic cards <i>HK\$</i>	Sales of smart card application system <i>HK\$</i>	Financial and management consultancy services <i>HK\$</i>	Trading of scrap metals <i>HK\$</i>	Consolidated <i>HK\$</i>
Reportable segment revenue	<u>72,703,952</u>	<u>25,940</u>	<u>2,929,245</u>	<u>–</u>	<u>75,659,137</u>
Reportable segment profit/(loss)	<u>(9,738,925)</u>	<u>(3,005)</u>	<u>28,161,514</u>	<u>(1,647,187)</u>	16,772,397
Finance costs					(2,234,250)
Unallocated interest income					13,256
Corporate expenses, net					<u>(2,650,310)</u>
Profit before income tax					<u>11,901,093</u>

2013

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

3. OTHER INCOME

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2014	2013	2014	2013
	HK\$	HK\$	HK\$	HK\$
Interest income (<i>note (a)</i>)	18,003,610	5,141,609	27,782,930	8,884,278
Government subsidy (<i>note (b)</i>)	–	–	–	497,512
Sundry income	6,482	11,923	18,482	19,407
	<u>18,010,092</u>	<u>5,153,532</u>	<u>27,801,412</u>	<u>9,401,197</u>

Notes:

- (a) Interest income comprises interest income arising from amount due from joint ventures and bank deposits in aggregate which are financial assets not at fair value through profit or loss.
- (b) A one-off unconditional government subsidy received from the PRC government during the period.

4. OTHER GAINS AND LOSSES

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2014	2013	2014	2013
	HK\$	HK\$	HK\$	HK\$
Loss on disposal of property, plant and equipment	180	4,818	180	4,818
Exchange losses, net	1,718,375	219,263	2,076,946	469,452
	<u>1,718,555</u>	<u>224,081</u>	<u>2,077,126</u>	<u>474,270</u>

5. FINANCE COSTS

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2014	2013	2014	2013
	HK\$	HK\$	HK\$	HK\$
Interest on bank loans wholly repayable within five years	266,906	275,581	545,715	539,645
Interest element of finance lease payments	811	5,673	3,039	12,567
Interest on convertible bonds	578,352	–	1,367,729	–
Interest charges on other borrowings	179,222	–	317,767	–
	<u>1,025,291</u>	<u>281,254</u>	<u>2,234,250</u>	<u>552,212</u>

6. INCOME TAX EXPENSE

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2014	2013	2014	2013
	HK\$	HK\$	HK\$	HK\$
Current tax				
– Hong Kong Profits Tax				
Current year	128,000	287,000	166,000	337,000
– PRC Enterprise Income Tax				
Current year	–	37,407	–	37,407
Total income tax expense	128,000	324,407	166,000	374,407

Hong Kong Profits Tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits for the period. Taxation for subsidiaries established and operated in the PRC is calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the PRC. No provision for PRC Enterprise Income Tax (“EIT”) has been made for the period as the subsidiaries sustained tax losses during the period.

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% (2013: 25%).

7. DIVIDEND

The Board does not recommend any payment of an interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: NIL).

8. EARNINGS (LOSSES) PER SHARE

(a) Basic earnings (losses) per share

The calculation of basic earnings (losses) per share for the three months and the six months ended 30 June 2014 is based on the profit of HK\$10,460,273 and HK\$11,735,093 respectively (three months and six months ended 30 June 2013: losses of HK\$3,636,653 and HK\$7,544,433 respectively) and the weighted average of 3,158,245,000 and 3,158,701,188 ordinary shares in issue during the periods (three months and six months ended 30 June 2013: 3,150,159,176 and 3,132,484,171 ordinary shares respectively).

(b) Diluted earnings (losses) per share

Diluted earnings per share for the three months and the six months ended 30 June 2014 have not been presented as the exercise prices of the share options, unlisted warrants and convertible bonds granted by the Company was higher than the average market price of the Company’s shares during the relevant periods.

No adjustment has been made to the basic loss per share for the three months and the six months ended 30 June 2013 as the outstanding share options and warrants are anti-dilutive effect on the basic loss per share.

9. INVENTORIES

	Unaudited 30 June 2014 HK\$	Audited 31 December 2013 HK\$
Raw materials	7,299,363	8,003,961
Work-in-progress	3,325,212	1,643,437
Finished goods	2,760,910	1,112,862
	<u>13,385,485</u>	<u>10,760,260</u>

10. TRADE AND OTHER RECEIVABLES

	Unaudited 30 June 2014 HK\$	Audited 31 December 2013 HK\$
Trade receivables, net (<i>note</i>)	43,519,532	39,295,229
Other receivables, deposits and prepayments	38,809,323	41,194,080
	<u>82,328,855</u>	<u>80,489,309</u>

Note:

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

	Unaudited 30 June 2014 HK\$	Audited 31 December 2013 HK\$
0 – 30 days	15,079,045	17,142,005
31 – 90 days	21,343,336	17,748,439
Over 90 days	7,097,151	4,404,785
	<u>43,519,532</u>	<u>39,295,229</u>

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

	Unaudited	Audited
	30 June	31 December
	2014	2013
	HK\$	HK\$
Neither past due nor impaired	26,058,108	25,675,523
1 – 30 days past due	13,982,288	5,770,318
31 – 90 days past due	2,103,093	6,023,379
Over 90 days past due	1,376,043	1,826,009
	43,519,532	39,295,229

Trade receivables that were neither past due nor impaired related to a number of customers for whom there was no recent history of default. Trade receivables that were past due but not impaired related to a number of customers that have a good track record with the Group. Based on past experience, the management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

11. AMOUNT DUE FROM JOINT VENTURES

The balances as at 30 June 2014 comprise (i) loans to Hota (USA) (the “Hota Loan”) with interest and handling charges accrued thereon amounting to HK\$143,848,879 (31 December 2013: HK\$134,941,673) which are unsecured, interest bearing 10% (31 December 2013: 8.5% to 10%) per annum and (ii) a loan to the Hota Auto Recycling Corporation, a wholly owned subsidiary of Hota (USA) amounting to HK\$146,283,636 (31 December 2013: HK\$125,624,682) which is unsecured, interest bearing at 24% per annum (2013: 10% to 15%) (the “PRC Loan”, and together with the Hota Loan, the “Loans”), and net of an impairment of HK\$60,535,365 which was provided for the year ended 31 December 2013.

As disclosed in the announcement of the Company dated 14 March 2014, the Board, after careful consideration and taking into account the recent financial status of the PRC Company and various factors, resolved not to grant any further extension to the repayment date of the PRC Loan, and had applied to the relevant authorities in Jiangsu, PRC for debt confirmation in this respect. A preliminary settlement agreement was subsequently entered into between the Company and the PRC Company on or about 25 February 2014 (which was finally endorsed by The Supreme People’s Court of Jiangsu in the PRC), pursuant to which the PRC Company shall repay the entire outstanding principal amount of the PRC Loan plus interest of approximately RMB103.9 million (the “Outstanding Amount”) to the Company in one lump sum within three days from the date of the said settlement agreement, namely 28 February 2014. It was also agreed that if the PRC Company failed to repay the above sum to the Company on time, a default interest at 2% per month shall be accrued upon the entire Outstanding Amount from 1 March 2014 until the entire Outstanding Amount (together with all the interest accrued thereon) being settled in full. As at the date of this report, the Outstanding Amount (and interest) has not been settled by the PRC Company.

Based on the Outstanding Amount which was finally endorsed by The Supreme People’s Court of Jiangsu in the PRC, an adjustment of approximately HK\$8.2 million was made in 2014Q2 to account for the underprovided interest income on or before 28 February 2014.

The loan agreements entered into by the Group and Hota (USA) specified possible capitalisation for the loans made to Hota (USA) in case Hota (USA) failed to repay the loans together with any interest accrued on due date. As at 30 June 2014 and up to the date of this report, no formal agreement has been signed in relation to the capitalisation of the loans. The Group did not hold any collateral over the Loans.

12. TRADE AND OTHER PAYABLES

	Unaudited 30 June 2014 HK\$	Audited 31 December 2013 HK\$
Trade payables (<i>note</i>)	55,022,514	39,217,887
Other payables and accrual	17,120,521	17,374,462
	72,143,035	56,592,349

Note:

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

	Unaudited 30 June 2014 HK\$	Audited 31 December 2013 HK\$
0 – 30 days	10,439,438	9,287,804
31 – 60 days	7,475,876	6,708,881
61 – 90 days	6,178,207	5,710,812
Over 90 days	30,928,993	17,510,390
	55,022,514	39,217,887

Due to short maturity period, the carrying values of the Group's trade and other payables are considered to be reasonable approximation of their fair values.

MANAGEMENT DISCUSSION AND ANALYSIS

Operation and Financial Review

Revenue

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

During the period under review, the Group's revenue generated from the smartcard business (including module packaging and testing service) amounted to HK\$72.7 million, up by HK\$17.5 million or 31.7% as compared to the corresponding period in 2013 of HK\$55.2 million, among which HK\$57.2 million (six months ended 30 June 2013: HK\$46.7 million) and HK\$15.5 million (six months ended 30 June 2013: HK\$8.5 million) were attributable to the traditional SIM cards business and the module packaging and testing service business respectively. Revenue of HK\$39.6 million generated during this quarter rose by HK\$6.5 million as compared to the revenue recorded in last quarter of HK\$33.1 million, it was mainly attributable to a rebound of contract manufacturing demand for traditional SIM cards from a seasonally low Q1 of HK\$27.1 million, to \$30.1 million, as well as the continuous ramp up progress of the module packaging and testing service business, which generated a record high revenue of HK\$9.5 million in this quarter, as compared to HK\$6.0 million in last quarter. For the three months ended 30 June 2014, despite the new module packaging and testing service business was still in its qualifications stage with many new customers, and capacity remaining under-utilized, some customers began to place orders consistently in May and June 2014 which resulted in a positive gross profit margin (before depreciation). It is expected that commercial production shall continue to ramp up throughout 2014.

Revenue generated from the provision of management and financial consultancy services amounted to HK\$2.9 million during the period under review, representing an increase of HK\$0.5 million as compared to the corresponding period in last year of HK\$2.4 million.

The Group's trading of scrap metal business did not generate revenue during the period under review (six months ended 30 June 2013: HK\$0.90 million). However, certain machines and equipment were acquired and installed in Taiwan, and were finished testing by late June. This segment began to generate revenue in July 2014, so the use of these new machines and equipment is expected to contribute to a positive gross profit for this business segment and the transaction volume is expected to ramp up throughout 2014.

Cost of Sales and Gross Profit

During the period under review, cost of sales increased by HK\$12.2 million, or 21.8%, from HK\$55.7 million for the corresponding period of 2013, to HK\$67.9 million. The increase in cost of sales was related to the increase in sales of smartcard business of HK\$17.5 million or 31.7%.

As a result, gross profit increased to HK\$7.8 million, up by HK\$5.0 million, or 179.2%, as compared to the corresponding period in last year of HK\$2.8 million.

Other Income

Other revenue of HK\$27.8 million (six months ended 30 June 2013: HK\$9.4 million) was mainly comprised of interest income arising from the amount due from joint ventures and bank deposits of HK\$27.78 million (six months ended 30 June 2013: HK\$8.9 million) plus sundry revenue of HK\$0.02 million (six months ended 30 June 2013: HK\$0.50 million).

Other Gains or Losses

During the period under review, other losses amounted to HK\$2.08 million (six months ended 30 June 2013: HK\$0.47 million) which was represented primarily by the exchange losses arising from foreign currency-based transactions. The increase in exchange losses was due to the recent depreciation of Renminbi that cause the diminishing in value of the carrying balances of the PRC Loan (which become wholly denominated in Renminbi after the settlement of debt confirmation early this year).

Selling and Distribution Costs

Selling and distribution costs increased by 7.6% over the corresponding period in 2013 to HK\$3.61 million (six months ended 30 June 2013: HK\$3.35 million), and was mainly attributable to the increase of promotional expenses and delivery costs associated with the increased sales of the smartcard business segment.

Administrative Expenses

Administrative expenses recorded an increase of HK\$0.8 million or 5.3% over the corresponding period in 2013 to HK\$15.8 million (six months ended 30 June 2013: HK\$15.0 million). The increase was primarily attributable to the incurrence of certain legal fees during the period under review.

Finance Costs

During the period under review, the Group's finance costs amounted to HK\$2.23 million (six months ended 30 June 2013: HK\$0.55 million), the increase was due largely to the interests accrued and payable in relation to the interest of the convertible bonds which were issued by the Company in 2013Q3, and partly to the increased in other borrowings.

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 jointly venture (six months ended 30 June 2013: NIL).

Income Tax Expense

During the period under review, the income tax expense of the Group amounted to HK\$0.17 million (six months ended 30 June 2013: HK\$0.37 million).

As a result of the foregoing, profit attributable to the owners of the Company for the six months ended 30 June 2014 amounted to HK\$11.7 million, representing an increase of HK\$19.2 million as compared to the loss of HK\$7.5 million for the corresponding period in 2013.

LIQUIDITY AND FINANCIAL RESOURCES

During the period under review, the Group financed its business operations and investments with cash revenue generated from operating activities, bank loans, finance lease arrangements and other borrowings. As at 30 June 2014, the Group had cash and bank balances of HK\$7.8 million, finance leases payable of HK\$0.1 million and a secured bank loan and other borrowings of HK\$49.4 million.

As at 30 June 2014, the Group had current assets of HK\$333.2 million and current liabilities of HK\$122.4 million. The current ratio, expressed as current assets over current liabilities, was maintained at a level of 2.7.

GEARING RATIO

The gearing ratio of the Group, expressed as a percentage of total borrowings to total assets of the Group, was 13.1% as at 30 June 2014 (31 December 2013: 14.9%).

EMPLOYEE INFORMATION

As at 30 June 2014, the Group employed a total of 502 employees, of which 13 were located in Hong Kong and the rest were located in the PRC. Employee cost, including directors' remuneration, was HK\$20.8 million for the period under review. The Group remunerates its employees based on their performance, experience and the prevailing industry practice. In addition to basic salaries and participation in mandatory provident fund scheme, staff benefits include medical scheme and share options.

SIGNIFICANT INVESTMENTS

Save as disclosed under section headed “Operation and Financial Review” and “Notes to the Unaudited Interim Financial Statements” above, there were no other significant investments for the period ended 30 June 2014.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group made no material acquisitions or disposals of subsidiaries and affiliated companies during the six months ended 30 June 2014.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed under section headed “Operation and Financial Review” and “Notes to the Unaudited Interim Financial Statements” above, and the announcements of the Company dated 18 March 2014, 15 April 2014 and 2 May 2014 in relation the possible formation of joint venture company, there were no future plans for material investments or capital assets as at 30 June 2014.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

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

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

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

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

As at 30 June 2014, the interests or short position of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein, or which were required, pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

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

Note:

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

Save as disclosed above, as at 30 June 2014, none of the Directors and chief executives or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein, or which were required, pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2014, the following persons/companies had interest or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying voting rights to vote in all circumstances at general meetings of any other member of the Group:

Long positions in shares of the Company

Name of shareholders	Type of interests	Long/short position	Number of shares of the Company	Approximate percentage of interests
Golden Dice Co., Ltd. <i>(Note 1)</i>	Beneficial	Long	504,885,125	15.98
Best Heaven Limited <i>(Note 1)</i>	Beneficial	Long	315,565,000	9.99
Mr. Tsai Chi Yuan <i>(Note 1)</i>	Interests in controlled company	Long	820,450,125	25.97

Note:

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

Save as disclosed above, as at 30 June 2014, the Directors are not aware of any other persons or corporation (other than the Directors and chief executive of the Company) having an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital rights to vote in all circumstances at general meetings of any other member of the Group.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The corporate governance principles of the Company emphasise a quality Board, sound internal controls, transparency and accountability to all shareholders. Throughout the six months ended 30 June 2014, the Group complied with the code provisions in the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 15 of the GEM Listing Rules, except for the code provision A2.1 stipulated in the following paragraphs.

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

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

- The size of the Group is still relatively small and thus not justified to separate the roles of chairman and chief executive officer; and
- The Group has in place an internal control system to perform the check and balance function. Ms. Wu is primarily responsible for leadership of the Group and the Board, setting strategic direction, ensuring the effectiveness of management in execution of the strategy approved by the Board. Execution responsibilities lie with another executive Director and senior management of the Company.

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

DIRECTORS’ SECURITIES TRANSACTIONS

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

Having made specific enquiry by the Company, all Directors have confirmed that they have complied with the required standard set out in such code of conduct throughout the six months ended 30 June 2014.

AUDIT COMMITTEE

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

The Group's unaudited results for the three months and the six months ended 30 June 2014 have been reviewed by the audited committee.

COMPETING INTERESTS

As at 30 June 2014, none of the directors or the management shareholders or any of their respective associates (as defined under the GEM Listing Rules) of the Company had any interest in a business that competed or might compete with the business of the Group directly or indirectly.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2014, the Company redeemed certain convertible bonds of the Company in the principal amount of HK\$5,670,000 from one of the holders of the convertible bonds.

Save as aforesaid, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities during the six months ended 30 June 2014.

For and on behalf of the Board
Lily Wu
Chairman

Hong Kong, 12 August 2014