



PHOENITRON

PHOENITRON HOLDINGS LIMITED

品創控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8066)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2012**

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE
STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”).**

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

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

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This announcement, 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 announcement 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 announcement misleading.

SUMMARY

- The Group recorded an unaudited revenue of HK\$65,286,000 for the six months ended 30 June 2012, representing a drop of 3.0% as compared with that of the corresponding period in 2011.
- The unaudited loss attributable to the owners of the Company for the six months ended 30 June 2012 was HK\$9,300,000.
- The Board does not recommend any payment of an interim dividend for the six months ended 30 June 2012.

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 2012 together with the comparative figures for the corresponding periods in 2011 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Three months ended 30 June		Six months ended 30 June	
		2012	2011	2012	2011
	Notes	HK\$	HK\$	HK\$	HK\$
			(Restated)		(Restated)
Revenue	2	32,662,164	34,260,375	65,285,564	67,287,414
Cost of sales		(25,752,912)	(25,700,436)	(51,829,725)	(50,084,951)
Gross profit		6,909,252	8,559,939	13,455,839	17,202,463
Other income	3	4,558,349	3,712,872	9,458,722	7,062,213
Other gains and losses	4	(483,761)	(513,540)	(1,066,884)	(834,904)
Selling and distribution costs		(1,693,558)	(1,441,725)	(3,171,668)	(2,654,206)
Administrative expenses		(8,280,691)	(5,348,104)	(14,483,405)	(11,235,480)
Finance costs	5	(348,274)	(100,511)	(700,714)	(211,859)
Share of losses of a jointly controlled entity		(5,185,323)	(2,584,535)	(10,297,622)	(7,527,147)
(Loss) Profit before income tax		(4,524,006)	2,284,396	(6,805,732)	1,801,080
Income tax expense	6	(1,362,000)	(982,082)	(2,494,000)	(1,841,805)
(Loss) Profit for the period		(5,886,006)	1,302,314	(9,299,732)	(40,725)
Other comprehensive income					
Exchange gain on translation of financial statements of foreign operations		(51,886)	1,205,426	528,294	1,475,475
Other comprehensive income for the period		(51,886)	1,205,426	528,294	1,475,475
Total comprehensive income for the period		(5,937,892)	2,507,740	(8,771,438)	1,434,750
		<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
(Losses) Earnings per share	8				
– Basic		(0.1947)	0.0429	(0.3075)	(0.0014)
– Diluted		(0.1945)	0.0428	(0.3069)	(0.0014)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Unaudited 30 June 2012 HK\$	Audited 31 December 2011 HK\$
	Notes		
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		74,576,963	24,437,000
Intangible assets		757,549	420,000
Prepayment on acquisition of property, plant and equipment		324,222	29,027,964
Interest in an associate		1,135,136	1,135,136
Long-term financial assets		147,080,640	153,985,702
		<u>223,874,510</u>	<u>209,005,802</u>
Current assets			
Inventories	9	6,412,368	5,114,610
Trade and other receivables	10	73,603,310	70,297,961
Amount due from a jointly controlled entity	11	138,982,731	132,611,520
Pledged bank deposits		1,226,080	17,406,252
Cash and cash equivalents		41,815,932	58,320,328
		<u>262,040,421</u>	<u>283,750,671</u>
Current liabilities			
Trade and other payables	12	35,336,093	30,272,197
Borrowings		36,675,492	37,785,759
Current tax liabilities		4,221,958	1,776,150
		<u>76,233,543</u>	<u>69,834,106</u>
Net current assets		<u>185,806,878</u>	<u>213,916,565</u>
Total assets less current liabilities		<u>409,681,388</u>	<u>422,922,367</u>
Non-current liabilities			
Borrowings		286,132	421,898
Deferred tax liabilities		4,707	4,707
		<u>290,839</u>	<u>426,605</u>
Net assets		<u>409,390,549</u>	<u>422,495,762</u>
EQUITY			
Share capital		60,411,100	60,544,100
Reserves		348,979,449	361,951,662
Total equity		<u>409,390,549</u>	<u>422,495,762</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HK\$	Contributed surplus* HK\$	Share option reserve* HK\$	Other reserves* HK\$	Translation reserve* HK\$	Available-for- sale financial assets revaluation reserve* HK\$	Warrant reserve* HK\$	Retained profits* HK\$	Total HK\$
At 1 January 2011	55,192,000	137,272,980	1,360,008	7	8,781,604	2,058,355	–	38,302,445	242,967,399
2010 final dividend paid during the period	–	(12,142,240)	–	–	–	–	–	–	(12,142,240)
Issue of new shares on completion of the Open Offer	5,519,200	93,826,400	–	–	–	–	–	–	99,345,600
Share issue expenses	–	(1,193,534)	–	–	–	–	–	–	(1,193,534)
Transactions with owners	60,711,200	217,763,606	1,360,008	7	8,781,604	2,058,355	–	38,302,445	328,977,225
Loss for the period	–	–	–	–	–	–	–	(40,725)	(40,725)
Other comprehensive income – Currency translation	–	–	–	–	1,475,475	–	–	–	1,475,475
Total comprehensive income for the period	–	–	–	–	1,475,475	–	–	(40,725)	1,434,750
At 30 June 2011	60,711,200	217,763,606	1,360,008	7	10,257,079	2,058,355	–	38,261,720	330,411,975
At 1 January 2012	60,544,100	214,082,297	1,360,008	7	12,541,386	8,595,048	–	125,372,916	422,495,762
2011 final dividend paid during the period	–	(6,046,350)	–	–	–	–	–	–	(6,046,350)
Issue of unlisted warrants	–	–	–	–	–	–	4,000,000	–	4,000,000
Repurchase of shares	(133,000)	(2,154,425)	–	–	–	–	–	–	(2,287,425)
Transactions with owners	60,411,100	205,881,522	1,360,008	7	12,541,386	8,595,048	4,000,000	125,372,916	418,161,987
Loss for the period	–	–	–	–	–	–	–	(9,299,732)	(9,299,732)
Other comprehensive income – Currency translation	–	–	–	–	528,294	–	–	–	528,294
Total comprehensive income for the period	–	–	–	–	528,294	–	–	(9,299,732)	(8,771,438)
At 30 June 2012	60,411,100	205,881,522	1,360,008	7	13,069,680	8,595,048	4,000,000	116,073,184	409,390,549

* 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	
	2012	2011
	HK\$	HK\$
Net cash generated from operating activities	3,262,432	9,153,469
Net cash used in investing activities	(12,488,376)	(18,511,956)
Net cash (used in) generated from financing activities	<u>(7,127,980)</u>	<u>94,394,533</u>
Net (decrease) increase in cash and cash equivalents	(16,353,924)	85,036,046
Cash and cash equivalents brought forward	58,320,328	47,340,764
Effect of foreign exchange rate changes	<u>(150,472)</u>	<u>298,578</u>
Cash and cash equivalents carried forward	<u><u>41,815,932</u></u>	<u><u>132,675,388</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 2012 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 2011.

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 2012, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2011, 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 2011.

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 2012 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 which is expected to be generating revenue by 4th quarter of 2012);
- (ii) Sales of smart cards application systems;
- (iii) Financial and management consultancy services; and
- (iv) Trading of scrapped automobiles (will be generating revenue in 3rd quarter of 2012);

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

2012

	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 scrapped automobiles/ Corporate/ Unallocated <i>HK\$</i>	Consolidated <i>HK\$</i>
Reportable segment revenue	63,136,013	26,670	2,122,881	–	65,285,564
Reportable segment profit/(loss)	(4,507,447)	(7,835)	7,368,158	–	2,852,876
Finance costs					(700,714)
Share of losses of a jointly controlled entity					(10,297,622)
Unallocated interest income					3,443,607
Corporate expenses, net					(2,103,879)
					–
Loss before income tax					(6,805,732)

2011

	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 scrapped automobiles/ Corporate/ Unallocated <i>HK\$</i>	Consolidated <i>HK\$</i>
Reportable segment revenue	65,589,265	270,599	1,427,550	–	67,287,414
Reportable segment profit/(loss)	5,276,143	(388,327)	4,432,043	–	9,319,859
Finance costs					(211,859)
Share of losses of a jointly controlled entity					(7,527,147)
Unallocated interest income					3,360,649
Corporate expenses, net					(3,140,422)
					–
Profit before income tax					1,801,080

3. OTHER INCOME

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2012	2011	2012	2011
	HK\$	HK\$	HK\$	HK\$
		(Restated)		(Restated)
Interest income (<i>note</i>)	4,536,959	3,710,646	9,401,097	7,026,187
Sundry income	21,390	2,226	57,625	36,026
	<u>4,558,349</u>	<u>3,712,872</u>	<u>9,458,722</u>	<u>7,062,213</u>

Note:

Interest income comprises interest income arising from amount due from a jointly-controlled entity and bank deposits of HK\$6,008,538 (six months ended 30 June 2011: HK\$3,936,851 (including interest income on loan receivable of HK\$164,383)) in aggregate which are financial assets not at fair value through profit or loss, as well as interest income arising from amortisation of available-for-sale financial assets of HK\$3,392,559 (six months ended 30 June 2011: HK\$3,089,336).

4. OTHER GAINS AND LOSSES

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2012	2011	2012	2011
	HK\$	HK\$	HK\$	HK\$
		(Restated)		(Restated)
Gain (loss) on disposal of property, plant and equipment	(40,480)	70	51,986	7,070
Exchange losses, net	(443,281)	(513,610)	(1,118,870)	(841,974)
	<u>(483,761)</u>	<u>(513,540)</u>	<u>(1,066,884)</u>	<u>(834,904)</u>

5. FINANCE COSTS

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2012	2011	2012	2011
	HK\$	HK\$	HK\$	HK\$
Interest on bank loans wholly repayable within five years	337,730	93,668	678,410	191,385
Interest element of finance lease payments	10,544	6,843	22,304	20,474
	<u>348,274</u>	<u>100,511</u>	<u>700,714</u>	<u>211,859</u>

6. INCOME TAX EXPENSE

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2012 HK\$	2011 HK\$	2012 HK\$	2011 HK\$
Current tax				
– Hong Kong Profits Tax				
Current year	1,362,000	1,042,000	2,494,000	1,750,000
– PRC Enterprise Income Tax				
Current year	–	(59,918)	–	91,805
Total income tax expense	1,362,000	982,082	2,494,000	1,841,805

Hong Kong Profits Tax has been provided at the rate of 16.5% (2011: 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% (2011: 25%).

7. DIVIDEND

The Board does not recommend any payment of an interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: NIL).

The final dividend of HK\$0.002 (2010: HK\$0.004) per share for the year ended 31 December 2011 had been approved and was paid before 25 May 2012.

8. (LOSSES) EARNINGS PER SHARE

(a) Basic (losses) earnings per share

The calculation of basic (losses) earnings per share is based on the losses for the three months and the six months ended 30 June 2012 of HK\$5,886,006 and HK\$9,299,732 respectively (three months and six months ended 30 June 2011: profit of HK\$1,302,314 and loss of HK\$40,275 respectively) and the weighted average of 3,022,455,220 and 3,024,409,396 ordinary shares in issue during the periods (three months and six months ended 30 June 2011: 3,035,560,000 and 2,931,884,420 ordinary shares respectively).

(b) Diluted (losses) earnings per share

The calculation of diluted (losses) earnings per share is based on the losses for the three months and the six months ended 30 June 2012 of HK\$5,886,006 and HK\$9,299,732 respectively (three months and six months ended 30 June 2011: profit of HK\$1,302,314 and loss of HK\$40,275 respectively) and the weighted average of 3,025,947,791 and 3,030,334,498 ordinary shares (three months and six months ended 30 June 2011: 3,040,507,115 and 2,937,067,907 ordinary shares respectively), calculated as follows:

	Three months ended 30 June		Six months ended 30 June	
	2012	2011	2012	2011
Weighted average number of ordinary shares used in the calculation of basic (losses) earnings per share	3,022,455,220	3,035,560,000	3,024,409,396	2,931,884,420
Effect of deemed issue of shares under the Company's share option scheme	3,492,571	4,947,115	3,687,818	5,183,487
Effect of deemed issue of shares on exercise of warrants	<u>—</u>	<u>—</u>	<u>2,237,284</u>	<u>—</u>
Weighted average number of ordinary shares for the purpose of calculating diluted (losses) earnings per share	<u>3,025,947,791</u>	<u>3,040,507,115</u>	<u>3,030,334,498</u>	<u>2,937,067,907</u>

9. INVENTORIES

	Unaudited 30 June 2012 HK\$	Audited 31 December 2011 HK\$
Raw materials	3,600,466	2,845,035
Work-in-progress	2,341,853	1,725,452
Finished goods	<u>470,049</u>	<u>544,123</u>
	<u>6,412,368</u>	<u>5,114,610</u>

10. TRADE AND OTHER RECEIVABLES

	Unaudited 30 June 2012 HK\$	Audited 31 December 2011 HK\$
Trade receivables, net – From third parties (<i>note</i>)	32,615,952	36,815,798
Other receivables, deposits and prepayment	<u>40,987,358</u>	<u>33,482,163</u>
	<u>73,603,310</u>	<u>70,297,961</u>

Notes:

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

	Unaudited 30 June 2012 HK\$	Audited 31 December 2011 HK\$
0 – 30 days	16,740,200	14,725,566
31 – 90 days	15,034,344	18,383,160
Over 90 days	841,408	3,707,072
	32,615,952	36,815,798

The ageing analysis of trade receivables that are not impaired, based on due date is as follows:

	Unaudited 30 June 2012 HK\$	Audited 31 December 2011 HK\$
Neither past due nor impaired	17,326,398	21,879,642
1 – 30 days past due	2,948,981	7,322,814
31 – 90 days past due	12,118,958	5,726,932
Over 90 days past due	221,615	1,886,410
	32,615,952	36,815,798

Trade receivables that were neither past due nor impaired related to a wide range 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 the 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 A JOINTLY CONTROLLED ENTITY

Except for the balance due from the jointly controlled entity with carrying amount of HK\$119,454,100 (31 December 2011: HK\$119,454,100) (the “loans”) which is unsecured and interest bearing at 10% per annum, the remaining balance due is unsecured and interest-free.

The Loans amounting to HK\$119,454,100 as at 30 June 2012 have been matured. The Group is in negotiation with the jointly controlled entity to extend the repayment date of the Loans to a latter period.

The Group entered into a non-legally binding memorandum of understanding with the jointly controlled entity in relation to a possible capitalisation for the Loan, in case the jointly controlled entity failed to repay the Loan together with any interest accrued on due date. As at 30 June 2012 and updated to the date of this report, no formal agreement has been signed in relation to the Loan capitalisation.

12. TRADE AND OTHER PAYABLES

	Unaudited 30 June 2012 HK\$	Audited 31 December 2011 HK\$
Trade payables – To third parties	18,610,033	20,600,596
Other payables and accrual	16,726,060	9,671,601
	<u>35,336,093</u>	<u>30,272,197</u>

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 2012 HK\$	Audited 31 December 2011 HK\$
0 – 30 days	7,198,646	10,764,218
31 – 60 days	4,065,104	4,771,867
61 – 90 days	6,380,791	3,796,518
Over 90 days	965,492	1,267,993
	<u>18,610,033</u>	<u>20,600,596</u>

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

Business and Operation Review

During the period under review, the Group was principally engaged in the manufacturing and sales of smart cards and plastic cards, the provision of customized smart card application systems and the provision of management and financial consultancy services. The Group was also engaged in the trading of scrapped automobiles but the initial revenue contribution will only be recognized starting from the quarter ending 30 September 2012.

Manufacturing and sales of smart cards and plastic cards

The Group's Intercard subsidiary faced a difficult and competitive business environment for the period under review, characterized by on-going price pressures and rising costs in China. In spite of that, the management is optimistic about the long-term prospects of the smartcard manufacturing industry through offering the best-quality, new smartcard product innovations, value-added services and convenient and speedy delivery services to the customers. To achieve this, the Group had invested further in its production plants in Beijing and Shenzhen by expanding and upgrading the card packaging and personalization facilities. At the same time, the Group is vertically integrating upstream and will begin to offer smartcard IC module packaging and testing services. During the period under review, production machines for the new IC module packaging and testing services were properly installed and tested, key production staffs were also recruited and the necessary

infrastructures were built within the factory and the relevant ISO certifications have been obtained. The related pre-operating expenses incurred during the period under review amounted to HK\$2.8 million and such expenses will continue to be incurred until the commencement of commercial production which is expected to take place by fourth quarter of 2012, as additional time is required for passing the requisite procedures such as sample making, the passing the audits of potential customers in terms of production standard and quality and trial production.

Taking into account the need of extra production space and facilities for the abovementioned vertical expansion and the increased variety of innovative smartcards products, during the period under review, the Beijing smartcard operation has moved to a new larger facility which houses both the existing smartcard production business and the new IC module packaging and testing business. The move was carefully planned and implemented and was successfully completed by late April and early May 2012 with minimal interruption. However, sales and production was inevitably affected during this period. Despite this short-term adverse effect, the Board believes that, in the long run, the provision of such value-added products and services is key to maintaining a healthy profit level while helping our customers lower their costs and solidifying our market position as a leading contract manufacturer with a growing stable customer base while the ability of the Group to provide one-stop services to its existing and potential customers, from the original manufacturing and sales of smart cards and plastic cards to the new module packaging and testing services, will enhance competitiveness and achieve a return to smartcard revenue growth and better profits for the Group.

Provision of customised smart card application systems

Revenue generated from the provision of customised smart card application systems was less than the corresponding period in 2011. The management expects the research and development of smart cards related products will stimulate growth of the sales of smart card application systems in the 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 in the future. The scope of services includes the provision of corporate organization and management advice, financing and financing planning implementation, and other services. It is expected that the total number of clients would be increased in the near future.

Trading business of scrapped automobile

In order to complement and support the investment in the jointly controlled entity, Hota (USA) Holding Corp. (“HOTA (USA)”) and for possible future expansion of the Group into scrap vehicles dismantling and comminuting business, the Group has signed a series of Memorandum of Understanding and/or official agreements with a number of global scrapped automobile suppliers. A subsidiary in Taiwan has also been set up to prepare for the trading business of scrapped automobiles. The operation has started during the period under review and the initial revenue contribution will be reflected in the third quarter this year.

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 manufacturing and sales of smart cards and plastic cards, the provision of customised smart card application systems and also the provision of management and financial consultancy services.

The Group's smartcard business faced a difficult and competitive business environment in the first half of 2012, characterized by on-going price pressures and rising costs in China. During the period under review, the Group's revenue generated from the smartcard business was HK\$63.1 million, down by HK\$2.5 million or 3.7% as compared to the corresponding period in 2011 of HK\$65.6 million. The decrease was due primarily to price-cuts that have been offered to select customers in exchange for greater sales volume and also the moving into a new production plant in Beijing which caused temporary interruption to the production.

Revenue generated from the provision of management and financial consultancy services amounted to HK\$2.1 million during the period under review, representing an increase of 48.7% as compared to the corresponding period in last year of HK\$1.4 million.

Cost of Sales and Gross Profit

During the period under review, cost of sales increased by HK\$1.7 million, or 3.5%, from HK\$50.1 million for the corresponding period of 2011 to HK\$51.8 million. The increase in cost of sales was largely attributable to the pre-operating direct costs incurred during the period in relation to the new IC module packaging and testing service business which amounted to approximately HK\$1.1 million (e.g. rental of new plant and usage of raw materials for staff training and sample making). Improved production efficiency in the on-going smartcard production operation led to a 3.1% reduction year-over-year in direct wages, which was unfortunately offset by a 0.7% and 7.6% year-over-year increase in materials (primarily plastics, which is an oil-based cost) and depreciation charge respectively.

As a result, gross profit dropped to HK\$13.5 million, down by HK\$3.7 million, or 21.8%, as compared to the corresponding period in last year of HK\$17.2 million. Due to the aforesaid, gross profit margin for the period under review dropped to 20.6%, as compared to 25.6% for the corresponding period in 2011.

By this year end and going into next year when the new smartcard IC module packaging and testing services starts ramping 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\$9.5 million (six months ended 30 June 2011 (restated): HK\$7.1 million) was mainly comprised of interest income arising from the amount due from a jointly controlled entity and bank deposits of HK\$6.0 million (six months ended 30 June 2011: HK\$3.9 million) and interest income arising from amortisation of available-for-sale financial assets of HK\$3.4 million (six months ended 30 June 2011: HK\$3.1 million).

Other Gains or Losses

During the period under review, other losses amounted HK\$1.1 million (six months ended 30 June 2011 (restated): HK\$0.8 million) which was represented mainly by the exchange losses arising from the foreign currency transactions.

Selling and Distribution Costs

Selling and distribution costs increased by 19.5% over the corresponding period in 2011 to HK\$3.2 million (six months ended 30 June 2011: HK\$2.7 million), and was attributable to the increases in freight charges (as goods were delivered to more remote customers) and also in overseas travelling expenses for soliciting new orders and exploring new business opportunities.

Administrative Expenses

Administrative expenses recorded an increase of HK\$3.2 million or 28.9% over the corresponding period in 2011 to HK\$14.5 million (six months ended 30 June 2011 (restated): HK\$11.2 million). The increase was primarily attributable to the pre-operating administrative expenses incurred in relation to the new smartcard IC module packaging and testing services of HK\$1.7 million, and also the one-time expenses incurred associated with the relocation of Beijing plant (such as payment of rentals/building management fee at the same time for both the old and new plants, compensation/severance payments to staffs for termination of employment contracts etc).

Finance Costs

In a lower interest rate environment, the Group has decided to increase its bank borrowings for its operating activities and to finance the acquisition of machinery in relation to the new smartcard IC module packaging and testing business. During the period under review, the Group's finance costs amounted to HK\$0.7 million (six months ended 30 June 2011: HK\$0.2 million).

Share of Losses of a Jointly Controlled Entity

Share of losses of Hota, a jointly controlled entity, after tax amounted to HK\$10.3 million (six months ended 30 June 2011: HK\$7.5 million). Hota's loss in the period under review was attributed to operations being below optimal utilization levels due to the early trial period nature of establishing sourcing and delivery channels and fine tuning production. Hota just started operations in Zhangjiagang in December 2011, and we expect commercial volumes of recycling and parts sales to be evident by the second half of 2012. Overseas offices have also been established in Japan and Taiwan to handle scrap automobile purchases and pre-processing of select parts. It is expected that Hota's earnings potential will gradually ramp up in the coming quarters to become a net contributor to the Group. In the long-term, the Board believes that the Hota investment should provide the Group with direct exposure to the promising business opportunity presented by the recycling of metals and materials from scrapped automobiles and the sale of recovered and reusable parts. Hota's business is not only a good potential growth and profit driver for the Group, it is also an environmentally significant operation to conserve the earth's metals resources, reduce the amount of auto waste disposed globally, and increase the amount of energy efficient recycled steel production in China.

Income Tax Expense

During the period under review, income tax expense of the Group amounted to HK\$2.5 million (six months ended 30 June 2011: HK\$1.8 million).

As a result of the foregoing, loss attributable to the owners of the Company for the six months ended 30 June 2012 amounted to HK\$9.3 million, representing an increase of HK\$9.2 million as compared to loss of HK\$0.1 million for the corresponding period in 2011.

LIQUIDITY AND FINANCIAL RESOURCES

During the period under review, the Group financed its business operations and investments with cash revenue generated from operating activities, bank loans, finance lease arrangements and net proceeds from issuance of unlisted warrants. As at 30 June 2012, the Group had cash and bank balances of HK\$43.0 million, finance leases payable of HK\$0.6 million and a secured bank loan of HK\$36.4 million.

As at 30 June 2012, the Group had current assets of HK\$262.0 million and current liabilities of HK\$76.2 million. The current ratio, expressed as current assets over current liabilities, was maintained at a satisfactory level of 3.4.

GEARING RATIO

The gearing ratio of the Group, expressed as a percentage of total bank borrowings to total assets of the Group, was 7.6% as at 30 June 2012 (31 December 2011: 7.8%). Accordingly, the financial position of the Group has remained very liquid.

EMPLOYEE INFORMATION

As at 30 June 2012, the Group employed a total of 493 employees, of which 14 were located in Hong Kong and the rest were located in the PRC. Employee cost, including directors' remuneration, was HK\$17.0 million for the period under review. The Group remunerates its employees based on their performance, experience and the prevailing industry practice. In addition to basic salaries and participation in mandatory provident fund scheme, staff benefits include medical scheme and share options.

SIGNIFICANT INVESTMENTS

Save as disclosed under section headed "Business and Operation Review" above, there were no other significant investments for the period ended 30 June 2012.

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 2012.

CHARGES ON GROUP ASSETS AND CONTINGENT LIABILITIES

At 30 June 2012, certain machinery and equipment with the carrying amounts of HK\$30,931,081 were pledged by the Company's subsidiaries as collaterals to secure general banking facilities granted to the Group. A bank deposit with the carrying amount of HK\$1,226,080 as at 30 June 2012 was pledged to secure a transaction of purchasing scrap automobiles.

The Company and its subsidiaries have provided guarantees of repayment in respect of the facilities for bank loans and finance leases of the Group amounting to HK\$69,000,000 (31 December 2011: HK\$69,000,000), of which HK\$36,961,624 (31 December 2011: HK\$38,207,657) was utilised and outstanding as at 30 June 2012.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As disclosed in the announcement of the Company dated 27 June 2012, the Company has entered into a non-legally binding framework agreement with China Railway Materials Trading Co., Ltd ("China Railway Materials"), a wholly owned subsidiary of China Railway Group Limited ("China Railway Group"), for the formation of a strategic partnership between the Company and China Railway Materials with respect to the scrap vehicles dismantling and comminuting business in the cities along the approximately 70 railways operated by China Railway Group in the PRC, and the proposed joint establishment of 10 scrap vehicles dismantling and comminuting plants in the PRC in five years after the signing of the Framework Agreement.

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 2012, the interests or short position of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein, or which were required, pursuant to 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	0.20
Chang Wei Wen	Beneficial owner	Long	5,250,000	–	0.17
Yang Meng Hsiu	Beneficial owner	Long	43,000,000	–	1.42

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 2012, none of the Directors and chief executives or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein, or which were required, pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2012, the following persons/companies had interest or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying voting rights to vote in all circumstances at general meetings of any other member of the Group:

Long positions in shares of the Company

Name of shareholders	Type of interests	Long/short position	Number of shares of the Company	Approximate percentage of interests
Golden Dice Co., Ltd. (Note 1)	Beneficial	Long	504,885,125	16.71
Best Heaven Limited (Note 1)	Beneficial	Long	315,565,000	10.45
Mr. Tsai Chi Yuan (Note 1)	Interests in controlled company	Long	820,450,125	27.16

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 2012, the Directors are not aware of any other persons or corporation (other than the Directors and chief executive of the Company) having an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital rights to vote in all circumstances at general meetings of any other member of the Group.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the six months ended 30 June 2012, the Company has complied, subject to the following deviations, with the code provisions set out in the Code of Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules:

A 2.1 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 reason 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 2012.

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 2012 have been reviewed by the audited committee.

COMPETING INTERESTS

As at 30 June 2012, 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 2012, the Company repurchased a total of 7,400,000 of its own shares respectively on the Stock Exchange at an aggregate consideration (before expenses) of HK\$2,528,650 (of which 6,650,000 shares has been cancelled as of 30 June 2012).

Particulars of the repurchases are as follows:

Date of repurchase	No. of Shares	Price per share		Aggregate price HK\$
		Highest HK\$	Lowest HK\$	
January	2,130,000	0.400	0.350	793,050
February	1,900,000	0.370	0.350	674,625
May	2,620,000	0.335	0.295	813,125
June	750,000	0.340	0.315	247,850
TOTAL	7,400,000			2,528,650

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 period.

For and on behalf of the Board

Lily Wu

Chairman

Hong Kong, 10 August 2012

As at the date of this announcement, the Board comprises three executive Directors, Ms. Lily Wu (Chairman and Chief Executive Officer), Mr. Chang Wei Wen, Mr. Yang Meng Hsiu, and three independent non-executive Directors, Ms. Wong Ka Wai, Jeanne, Mr. Leung Ka Kui, Johnny and Mr. Chan Siu Wing, Raymond.

This announcement will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its posting and the Company's website at www.phoenitron.com.