# PHOENITRON HOLDINGS LIMITED

# 品 創 控 股 有 限 公 司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 8066)**

## ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

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

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

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



*This announcement, 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 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.*

**HIGHLIGHTS**

- Revenue for the year ended 31 December 2013 amounted to HK$134,350,000, representing an increase of 4.0% as compared to the corresponding period in 2012 of HK$129,142,000.

- The Group recorded an audited loss attributable to the owners of the Company of HK$141,014,000 for the year ended 31 December 2013.

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

## 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**").

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

The board of Directors (the "Board") announces the consolidated results of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2013 together with the comparative figures for the year 2012 as follows:

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME**
*For the year ended 31 December 2013*

| | *Notes* | **2013** **HK$** | 2012 *HK$* |
|---|---|---|---|
| **Revenue** | *4* | **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 | *5* | **31,870,797** | 21,293,508 |
| Fair value (loss)/gain on a financial derivative | *12(a)* | **(75,216,414)** | 381,378 |
| Other gains and losses, net | *6* | **(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 | | **(60,535,365)** | – |
| Finance costs | *7* | **(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** | *8* | **(139,099,950)** | (10,825,315) |
| Income tax expense | *9* | **(1,913,869)** | (1,466,716) |
| **Loss for the year** | | **(141,013,819)** | (12,292,031) |
| **Other comprehensive income** | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Available-for-sale financial assets | | | |
| 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** | *11* | | |
| – 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 | | **60,361,649** | 73,072,916 |
| Intangible assets | | **420,000** | 420,000 |
| Prepayments for acquisition of property, plant and equipment | | **1,549,900** | 1,879,941 |
| Interest in an associate | | **996,282** | 866,058 |
| Long-term financial assets | *12* | **60,246,854** | 133,967,201 |
| | | **123,574,685** | 210,206,116 |
| **Current assets** | | | |
| Inventories | | **10,760,260** | 8,300,248 |
| Trade and other receivables | *13* | **80,489,309** | 70,080,356 |
| Amount due from a joint venture | *14* | **200,030,990** | 181,524,516 |
| Tax recoverable | | **–** | 27,868 |
| Pledged bank deposits | | **3,009,616** | 565,720 |
| Cash and cash equivalents | | **12,087,545** | 39,783,378 |
| | | **306,377,720** | 300,282,086 |
| **Current liabilities** | | | |
| Trade and other payables | *15* | **56,592,349** | 39,735,864 |
| Borrowings | | **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 | | **–** | 145,499 |
| Convertible bonds | | **14,622,664** | – |
| Deferred tax liabilities | | **4,707** | 4,707 |
| | | **14,627,371** | 150,206 |
| **Net assets** | | **308,515,825** | 437,009,505 |
| **EQUITY** | | | |
| Share capital | | **63,236,700** | 60,886,700 |
| Share subscription received | | **–** | 30,000,000 |
| Reserves | | **245,279,125** | 346,122,805 |
| **Total equity** | | **308,515,825** | 437,009,505 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 December 2013*

| | Share capital | Share subscription received | Contributed surplus* | Share option reserve* | Other reserves* | Translation reserve* | Available-for-sale financial assets revaluation reserve* | Warrant reserve* | Retained profits/ (accumulated loss)* | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | *HK$* | *HK$* | *HK$* | *HK$* | *HK$* | *HK$* | *HK$* | *HK$* | *HK$* | *HK$* |
| 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 10(b))* | – | – | (6,046,350) | – | – | – | – | – | – | (6,046,350) |
| Shares repurchase | (157,400) | – | (2,553,187) | – | – | – | – | – | – | (2,710,587) |
| Issue of shares upon exercise of non-listed warrants | 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 10(b))* | – | – | (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 | – | – | – | – | 3,612,087 | – | – | – | – | 3,612,087 |
| Share repurchase | – | – | (616,964) | – | (71,800) | – | – | – | – | (688,764) |
| Issue of shares upon exercise of non-listed warrants | 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

These financial statements 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 2.

The financial statements have been prepared on the historical cost basis except for certain financial assets which are measured at fair values.

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.

### 2. ADOPTION OF NEW OR REVISED HKFRSs

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.

**Amendments to HKAS 1 (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 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. Comparative disclosures have not been presented in accordance with the transitional provisions of the standard.

## 3. 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.

**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)** |
| **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 assets | | | | | | **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** |

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) |
| **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 assets | | | | | | 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 |

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** | 2012 | **2013** | 2012 |
| | ***HK$*** | *HK$* | ***HK$*** | *HK$* |
| 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** | 2012 |
|---|---|---|
| | ***HK$*** | *HK$* |
| 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.

## 4. REVENUE

The Group's principal activities are disclosed in note 3. 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** | 2012 |
|---|---|---|
| | ***HK$*** | *HK$* |
| 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 |

## 5. OTHER INCOME

| | **2013** | 2012 |
|---|---|---|
| | ***HK$*** | *HK$* |
| 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, loan receivable and bank deposits 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 (2012: HK$7,273,471).

## 6. OTHER GAINS AND LOSSES, NET

| | **2013** | 2012 |
|---|---|---|
| | ***HK$*** | *HK$* |
| (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) |

## 7. FINANCE COSTS

| | **2013** | 2012 |
|---|---|---|
| | ***HK$*** | *HK$* |
| 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.

## 8. LOSS BEFORE INCOME TAX

| | **2013** | 2012 |
|---|---|---|
| | ***HK$*** | *HK$* |
| 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 | **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

## 9. INCOME TAX EXPENSE

| | **2013** | 2012 |
|---|---|---|
| | ***HK$*** | *HK$* |
| **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<br>*HK$* | 2012<br>*HK$* |
|---|---|---|
| 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 |

## 10. DIVIDENDS

### (a) Dividends attributable to the year

| | 2013<br>*HK$* | 2012<br>*HK$* |
|---|---|---|
| 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 for the year ended 31 December 2013.

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

| | 2013<br>*HK$* | 2012<br>*HK$* |
|---|---|---|
| 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 |

## 11. 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 had anti-dilutive effect on the basic loss per share for the year ended 31 December 2013 and 2012.

## 12. LONG-TERM FINANCIAL ASSETS

| | 2013<br>HK$ | 2012<br>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 |

*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 a PRC entity which is principally engaged in the business of disintegration of used automobiles and sale of metal derived from automobiles (the "Resources Recycling Business"). As at 31 December 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 respective 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.

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<br>HK$ | 2012<br>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 |

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<br>Series A preferred shares USD12,000,000 | 35.29% (2012: 35.29%)<br>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.

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

| | **2013** | 2012 |
|---|---|---|
| | ***HK$*** | *HK$* |
| **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) |
| *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 |

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

(b) The investment represents 11.33% equity interest in Guangzhou Tecsun Golden Card Ltd. (廣州德生金卡有限公司)("Guangzhou Tecsun"), a PRC entity with paid up registered capital of RMB41,700,000.

| | 2013 | 2012 |
|---|---|---|
| | *HK$* | *HK$* |
| 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.

## 13. TRADE AND OTHER RECEIVABLES

| | 2013 | 2012 |
|---|---|---|
| | *HK$* | *HK$* |
| 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 |
| | **80,489,309** | 70,080,356 |

*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 | 2012 |
|---|---|---|
| | *HK$* | *HK$* |
| 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** | 2012 |
|---|---|---|
| | ***HK$*** | *HK$* |
| 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** | 2012 |
|---|---|---|
| | ***HK$*** | *HK$* |
| 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.

(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. As the long overdue 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.

## 14. AMOUNT DUE FROM A JOINT VENTURE

The amount due from the joint venture with carrying amount of HK$200,030,990 (2012: HK$181,524,516) (the "Loans") is unsecured carry interest rate at 10% to 15% (2012: 8.5% to 10%) per annum and repayable on demand.

## 15. TRADE AND OTHER PAYABLES

| | **2013** | 2012 |
|---|---|---|
| | ***HK$*** | *HK$* |
| Trade payables | **39,217,887** | 26,999,204 |
| Other payables and accrual | **17,374,462** | 12,736,660 |
| | **56,592,349** | 39,735,864 |

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:

| | **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.

## MANAGEMENT DISCUSSION AND ANALYSIS

## 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 scrapped 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).

## AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the GEM Listing Rules. 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. Four audit committee meetings were held during the financial year 2013.

The Group's results for the year ended 31 December 2013 have been reviewed by the audit committee.

## 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 year of 2013, the Group compiled with the code provisions in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules, except for the code provision A2.1 stipulated in the following paragraphs.

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

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

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

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

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

## 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.

By order of the Board
**Lily Wu**
*Chairman*

Hong Kong, 26 March 2014

*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.*