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**PHOENITRON**  
**PHOENITRON HOLDINGS LIMITED**

**品創控股有限公司**

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

**(Stock code: 8066)**

**ANNOUNCEMENT**  
**UPDATE ON THE ANNUAL RESULTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

Reference is made to the announcement of Phoenitron Holdings Limited (the “**Company**”) dated 31 March 2020 in relation to the unaudited consolidated annual results of the Group for the year ended 31 December 2019 (the “**Announcement**”). Capitalised terms used herein, unless otherwise defined, shall have the same meanings as those defined in the Announcement.

**AUDITOR’S AGREEMENT ON THE 2019 ANNUAL RESULTS**

The Company is pleased to announce that, on 14 May 2020, the auditing process of the consolidated results of the Group for the year ended 31 December 2019 (the “**2019 Annual Results**”) has been completed and the Company’s auditor (the “**Auditor**”), Grant Thornton Hong Kong Limited, has agreed on the 2019 Annual Results (including the financial figures in respect of the Group’s consolidated statement of profit and loss and other comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity and the related notes thereto) as set out in the Announcement in accordance with Rule 18.49 of the GEM Listing Rules. The 2019 Annual Results contained in the Announcement remain unchanged.

As stated in the Announcement, there may be a potential to issue a modified opinion regarding (i) prior year’s audit scope limitation affecting comparative figures and (ii) other receivables from a petroleum company and disposal of a subsidiary in 2019 by the Auditor.

**EXTRACT OF THE AUDITOR’S REPORT**

The following is the extract of the independent auditor’s report from the Auditor on the Group’s consolidated financial statements for the year ended 31 December 2019:

## QUALIFIED OPINION

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR QUALIFIED OPINION

### *Prior year’s audit scope limitation affecting comparative figures and other receivables from the Petroleum Company and disposal of a subsidiary in 2019*

As described in note 25(c) to the consolidated financial statements, included in other receivables as at 31 December 2018 was receivables from a petroleum company (the “**Petroleum Company**”) of RMB68,186,400 (equivalent to approximately HK\$77,484,545), in which RMB48,750,000 (equivalent to approximately HK\$55,397,727) and RMB19,436,400 (equivalent to approximately HK\$22,086,818) were recorded in the books of Phoenitron Resources Company Limited (“**Phoenitron HK**”) and Shanghai Phoenitron Petroleum & Chemical Company Limited (literal translation of the Chinese name of 上海品創石油化工有限公司) (“**Shanghai Phoenitron**”), respectively. Phoenitron HK and Shanghai Phoenitron were indirect owned subsidiaries of the Group during 2018 and up to the date of its disposal on 12 December 2019. No expected credit loss allowance was recognised against these receivables during the year ended 31 December 2018. As detailed in our auditor’s report dated 26 March 2019, we were unable to obtain sufficient appropriate audit evidence or satisfactory management explanation to support management’s recoverability assessment of the abovementioned amounts. We were also not able to obtain all the necessary corroborative evidence from the counterparties to substantiate the nature of the related transactions occurred in 2018 and the related outstanding balances as at 31 December 2018. Our audit opinion on the consolidated financial statements of the Group for the year ended 31 December 2018 was modified accordingly.

As described in note 25(c) to the consolidated financial statements, the Petroleum Company has repaid RMB24,375,000 (equivalent to approximately HK\$27,083,333) to Phoenitron HK during the year ended 31 December 2019. In this respect, Phoenitron HK and Shanghai Phoenitron have outstanding other receivables from the Petroleum Company of RMB24,375,000 (equivalent to approximately HK\$27,083,333) and RMB19,436,400 (equivalent to approximately HK\$21,596,000), respectively, as at 15 October 2019.

On 15 October 2019, Phoenitron HK issued a notice to the Petroleum Company in which Phoenitron HK has assigned its outstanding other receivables from the Petroleum Company of RMB24,375,000 (equivalent to approximately HK\$27,083,333) to the Company. The

Group has recognised an expected credit loss allowance of RMB22,917,734 (equivalent to approximately HK\$25,464,149) on these unsettled receivables after considered the discounting effect during the year ended 31 December 2019.

As described in notes 12 and 42(b) to the consolidated financial statements, the Group has completed the disposal of its entire equity interests in Waywise Step International Limited (“**Waywise Step International**”), an indirect wholly-owned subsidiary of the Company, to an independent third party for an aggregate consideration of HK\$7,000,000 (the “**Disposal**”) on 12 December 2019 and ceased the business in sales of petrochemical products thereafter. In this regard, the results of Waywise Step International and its subsidiaries are disclosed as discontinued operations. Waywise Step International holds the entire equity interests in Phoenitron HK, which in turn, holds 75% of equity interest in Shanghai Phoenitron and its wholly-owned subsidiary (collectively, the “**Disposal Group**”). No expected credit loss allowance was recognised at the date of disposal against the other receivables from the Petroleum Company of RMB19,436,400 (equivalent to approximately HK\$21,596,000) held in the books of the Disposal Group. The Group has recognised a loss on disposal of a subsidiary of HK\$15,342,843 and loss for the period from discontinued operations of HK\$1,018,930 during the year ended 31 December 2019.

In respect of the abovementioned transactions and balances occurred and recorded, we were unable to obtain sufficient appropriate audit evidence or satisfactory management explanation to support the transactions and management’s recoverability assessment, including but not limited to, information to ascertain the background and financial strength of the Petroleum Company, to satisfy ourselves as to the recoverability of the other receivables due from the Petroleum Company as at 31 December 2018 and 2019 and at the date of disposal of the subsidiary. We were not able to receive satisfactory direct confirmation reply from the Petroleum Company to confirm the receivable balances with them and we were also not able to obtain all the necessary corroborative evidence from the counterparties to substantiate the abovementioned transactions and the related outstanding balances. Therefore, we were unable to determine whether any adjustments to the other receivables from the Petroleum Company, the related expected credit loss allowance, the loss on disposal of a subsidiary and loss for the period from discontinued operations recognised during the year ended 31 December 2019 were necessary, which may have a significant impact on the Group’s financial position as at 31 December 2018, 1 January 2019 and 31 December 2019, and on the financial performance and the elements making up the consolidated statement of cash flows of the Group for the year ended 31 December 2019 and the related disclosures.

We conducted our audit in accordance with Hong Kong Standards on Auditing (“**HKSAs**”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (the “**Code**”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

## THE GROUP'S RESPONSE TO THE BASIS OF QUALIFIED OPINION

In respect of the audit qualification regarding audit scope limitation in 2018 affecting comparative figures, the Company has already addressing the concerns raised by the Auditor. As disclosed in the announcement of the Company dated 10 September 2019 (the “**September Announcement**”), the Company has since then provided the Auditor with the original documents for their inspection, and the confirmation from the Petroleum Company on 5 July 2019 (the date on which the Company entered into the repayment agreement with the Petroleum Company (“**Repayment Agreement**”)), allowing the Auditor to substantiate the nature of the transactions which occurred in 2018 and the related outstanding balance due from the Petroleum Company as at 31 December 2018. As also disclosed in the September Announcement, the Auditor was also satisfied with the nature of the transactions based on the abovementioned new additional audit work performed in July 2019.

Pursuant to the Repayment Agreement, the Petroleum Company agreed to settle the said RMB48,750,000 with Phoenitron HK in the following manner:

- the Petroleum Company shall repay Phoenitron HK a total sum of RMB24,375,000 by 25 August 2019;
- the Petroleum Company shall repay Phoenitron HK a total sum of RMB12,187,500 by 25 August 2020; and
- the Petroleum Company shall repay Phoenitron HK the remaining sum of RMB12,187,500 by 25 August 2021.

Subsequently, the Petroleum Company has repaid RMB24,375,000 to Phoenitron HK during the year ended 31 December 2019. Up to this point, the Board opined that the Petroleum Company should be able to meet the obligations of repaying the remaining balances of RMB24,375,000 under the Repayment Agreement (the “**Remaining Balances**”).

As disclosed in the September Announcement, the Company was continued to looking for the possible ways to recover the other receivables from the Petroleum Company of RMB19,436,400 (“**Shanghai Phoenitron Outstanding Receivables**”) following the signing of the Repayment Agreement. Meanwhile, the Board was also monitoring closely the PRC petrochemical market and considering the way forward regarding the Group’s petrochemical products segment. In view of the possibility of discontinuing the Group’s operations of the petrochemical products segment and at the same time to ensure the recovery of the Remaining Balances, the Board decided to assign the receivable of the Remaining Balances from Phoenitron HK to the Company (the “**Assignment of Receivable**”) after seeking legal advice so as to allow more flexibility to the Group in handling its petrochemical products business.

In October 2019, the Company appointed a PRC law firm, an independent third party, to handle the Assignment of Receivable. The Company was later notified by the law firm that the assignment has been completed in accordance with the PRC laws and a legal opinions report was issued to the Company accordingly.

Subsequently, the Company disposed Waywise Step International and at the same time realized the Shanghai Phoenitron Outstanding Receivable. For details, please refer to the announcement of the Company dated 12 December 2019. Given the relatively short period in between the first settlement by the Petroleum Company in late August 2019 and the Disposal, no impairment was made on the Shanghai Phoenitron Outstanding Receivables. Besides, due to the deteriorating of the debt market in the PRC, the Board believed that the actual consideration received from the Disposal may be a more objective and fair way to determine the true value of Shanghai Phoenitron Outstanding Receivable.

During the course of the audit, the Company has tried its best to assist the Auditor in getting the required audit evidences including but not limited to inviting the Auditor in July 2019 to witness the signing of the Repayment Agreement in Shanghai, appointing a PRC lawyer to assist the Auditor to perform relevant audit procedures (including the serving of audit confirmation) and arranging several meetings between the Company's PRC lawyer and the Auditor for discussions, and explanations were made to the Auditor that the Assignment of Receivable and the serving of the relevant documents are in compliance with the relevant PRC laws. In addition, at the request of the Auditors, a number of independent legal opinion reports were issued by the PRC lawyer and addressed to the Auditor directly.

However, the following changes or developments in circumstances have occurred after the Reporting Period that have led to the Board's decision to provide full impairment loss on the Remaining Balances:

**(a) *Plunging in global oil prices***

Since 2020, there is a great plunge in oil prices which will certainly adversely affect the industry players in the PRC, including the Petroleum Company.

**(b) *Other social/economic factors***

The slowdown of the PRC's GDP growth rate, and on-going global trade tensions, together with the outbreak of COVID-19, which add further uncertainties and may create problems to companies operating in the PRC.

**(c) *Loss of contact with the Petroleum Company***

The Company was unable to get contact with the Petroleum Company during the course of audit. For prudent sake, an impairment was therefore provided for.

Notwithstanding of the above, the Board and the management will continue to pursue all possible options, and places the highest priority on resolving the settlement as soon as practicable and to the best possible advantage of all shareholders.

## **SCOPE OF WORK OF GRANT THORNTON HONG KONG LIMITED**

The figures and amounts in respect of the Group's consolidated statement of profit and loss and other comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity and the related notes thereto for the year ended 31 December 2019 as set out in the Announcement have been agreed to by the Group's auditor, Grant Thornton Hong Kong Limited. The work performed by Grant Thornton Hong Kong Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standard on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standard on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Grant Thornton Hong Kong Limited on the Announcement.

By Order of the Board  
**Phoenitron Holdings Limited**  
**Chang Wei Wen**  
*Director*

Hong Kong, 14 May 2020

*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 and 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, for which the directors of 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 of Hong Kong Limited for the purpose of giving information with regard to the Company. The directors of the Company, 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 in this announcement misleading.*

*This announcement will remain on the "Latest Company Announcements" page of the GEM website ([www.hkgem.com](http://www.hkgem.com)) for at least 7 days from its date of posting and the Company's website at [www.phoenitron.com](http://www.phoenitron.com).*