# 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 2020

**CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")**

**GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock 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.**

**Given that the companies listed on GEM are generally small and mid-sized companies, 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.**

**HIGHLIGHTS**

- Revenue from continuing operations for the year ended 31 December 2020 amounted to approximately HK$76,099,000, representing an increase of 12.6% as compared to the corresponding period in 2019 of approximately HK$67,613,000.

- The Group recorded a profit attributable to the owners of the Company for the continuing operations of approximately HK$3,956,000 for the year ended 31 December 2020.

- The Board does not recommend any payment of a final dividend for the year ended 31 December 2020 (2019: nil).

## CHAIRMAN'S STATEMENT

## TO OUR SHAREHOLDERS

On behalf of the Board of Directors, I am pleased to present the results of Phoenitron Holdings Limited (the "Company") and its subsidiaries (together, the "Group") for the financial year ended 31 December 2020 (the "Reporting Period").

## RESULTS

For the year ended 31 December 2020, the Company recorded a consolidated revenue from continuing operations of approximately HK$76,099,000 (2019: approximately HK$67,613,000) and profit attributable to owners of the Company from continuing operations of approximately HK$3,956,000 (2019: loss of approximately HK$25,869,000).

## DIVIDEND

The Board of Directors (the "Board") of the Company does not recommend any payment of a final dividend for the Reporting Period.

## BUSINESS AND OPERATION REVIEW

During the Reporting Period, the Group is principally engaged in the contract manufacturing and sales of smart cards, and the sales and trading of scrap metals.

### Contract manufacturing and sales of smart cards

During the Reporting Period, the Group's performance on contract manufacturing and sales of SIM cards business has shown notable improvement. Despite the worldwide instability brought by COVID-19, the Group grew turnover in the year by approximately 30.8% to HK$76.1 million (2019: HK$58.2 million). The increase was due to the widespread outbreak of COVID-19 in other countries in the second quarter which drove our customers to temporarily place extra orders to our Shenzhen plant (the orders volume has since gradually reverted to past historic levels) and also the fact that Phoenitron has regained its market share through greater volume, thanks to our highly automated smart card production facilities, distribution networks, and strong sales and marketing teams in Hong Kong and Shenzhen which enable us to offer best-quality, new smartcard product innovations and convenient and speedy delivery services to our customers.

During the Reporting Period, we continued to focus on solidifying our relationship with existing customers and at the same time expanding the client base and overall market share. Management also made greater efforts in implementing cost-cutting/streamlining measures and increasing average productivity by enhancing the operational efficiency.

Financially, profit of approximately HK$7.9 million (2019: approximately HK$3.4 million) was recorded for the SIM card market segment during the Reporting Period.

Apart from the existing SIM card services, we will also be searching for opportunities to provide certain higher-value-added card services (for example, machine-to-machine (M2M) smartcard related business) in the coming year.

**Sales and trading of scrap metals**

In view of the uncertainties brought by COVID-19 on the global economy, management adopted a prudent approach to the Group's businesses and placed highest priority on the Group's cash level to ensure that it was maintained at a healthy level at all times. As such, the Group has temporary suspended its sales and trading of scrap metals transactions in Taiwan (as the value involved in each transaction is high) and hence there was no revenue generated from this business segment during the Reporting Period (2019: approximately HK$9.4 million). We expect that there will be gradual resumption of the business once there is a clearer sign of recovery and stability of the global economy.

**Investment in TV Play**

In the last year, Kartop Hong Kong Limited ("Kartop HK"), an indirectly wholly-owned subsidiary of the Company, entered into the Joint Production Agreement with 浙江優盛影視文化有限公司 (Zhe Jiang You Sheng Ying Shi Wen Hua Company Limited*)("Zhe Jiang You Sheng"), pursuant to which Kartop HK has agreed to invest RMB24.0 million (equivalent to approximately HK$26.9 million) in the production of a TV Play "Snow Leopard II" (the "Target TV Play"), which is directed by Mr. Wang De Qing, produced by Mr. Zhang Jian and starred by Mr. Zhang Ming En and Ms. Feng Yue and was tentatively expected to be released in China in 2020. However, due to the outbreak of COVID-19, there is a substantial delay in film production of "Snow Leopard II" but it is expected that it will be completed and released in 2021.

The Group plans to develop new businesses in the advertising, media and entertainment industry. The investment in the Target TV Play is in line with the Group's plan of development in the advertising, media and entertainment industry. The Directors consider that the investment in the Target TV Play would be beneficial to the Group as it represents a first step forward in the implementation of the Group's development plan. The Directors also believe that the investment in the Target TV Play will provide additional income to the Group which strengthen our financial base. Apart from "Snow Leopard II", the management will also be looking for other similar investments in the future.

* The English translation of the Chinese name is for information only, and should not be regarded as the official English translation of such name.

## OUTLOOK

In 2021, the COVID-19 outbreak is expected to continue to bring about uncertainties in the Group's operating environment in China. As far as the Group's businesses are concerned, the recent tightening measures implemented by the customs office in Shenzhen on import of goods from Hong Kong has caused a substantial increase in transportation and related costs for the SIM cards business.

Looking forward, we expect 2021 will be challenging yet also a year of positive transition. We expect that there will be further growth in the second half of 2021 in terms of revenue and the market share when adverse effect brought by COVID-19 become stabilised. At the same time, we will continue to consolidate the existing 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 and to convert challenges into opportunities. We also expected that both the TV Play business and perhaps the sales and trading of scrap metals business will further contribute to the Group's revenue and profits for the coming year. We believe, by applying the Company's funds in an appropriate manner and by utilising the unique investment opportunities of the Company, we will bring stable revenue and profit for our shareholders. The Board believes the diversification of our businesses will facilitate the long term development of the Group and enhance our shareholder value.

## 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 2020. 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, 25 March 2021

The board of Directors (the "Board") announces the audited consolidated results of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2020 together with the comparative figures for the corresponding period in 2019 as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31 December 2020*

| | *Notes* | **2020** **HK$** | 2019 *HK$* |
|---|---|---|---|
| **Continuing operations** | | | |
| **Revenue** | *4* | **76,098,619** | 67,612,736 |
| Cost of sales | | **(51,934,626)** | (48,223,752) |
| **Gross profit** | | **24,163,993** | 19,388,984 |
| Other income | *5* | **1,031,819** | 1,113,033 |
| Other (losses)/gains, net | *6* | **(7,220)** | 7,512,545 |
| Selling and distribution costs | | **(3,023,341)** | (3,673,530) |
| Administrative expenses | | **(20,816,015)** | (24,995,102) |
| Impairment loss on other receivables | | **(266,953)** | (24,625,687) |
| Change in fair value of investment in TV programmes | *13* | **3,247,844** | – |
| Finance costs | *7* | **(394,596)** | (589,573) |
| **Profit/(loss) before income tax** | *8* | **3,935,531** | (25,869,330) |
| Income tax credit | *9* | **20,000** | – |
| **Profit/(loss) for the year from continuing operations** | | **3,955,531** | (25,869,330) |
| **Discontinued operation** | | | |
| Loss for the period from discontinued operation | *10* | **–** | (16,361,773) |
| **Profit/(loss) for the year** | | **3,955,531** | (42,231,103) |

| | 2020 | 2019 |
|---|---|---|
| | ***HK$*** | *HK$* |
| **Other comprehensive income/(loss)** | | |
| *Items that may be reclassified subsequently to profit or loss:* | | |
| Exchange differences on translation of financial statements of foreign operations | **728,356** | (59,289) |
| Release of translation reserve on disposal of subsidiaries | **–** | 5,367,547 |
| Other comprehensive income for the year, net of income tax | **728,356** | 5,308,258 |
| **Total comprehensive income/(loss) for the year** | **4,683,887** | (36,922,845) |
| **Profit/(loss) for the year attributable to:** | | |
| Owners of the Company | | |
| – Continuing operations | **3,955,709** | (25,869,152) |
| – Discontinued operation | **–** | (16,263,964) |
| Non-controlling interests | | |
| – Continuing operations | **(178)** | (178) |
| – Discontinued operation | **–** | (97,809) |
| | **3,955,531** | (42,231,103) |
| **Total comprehensive income/(loss) for the year attributable to:** | | |
| Owners of the Company | | |
| – Continuing operations | **4,684,065** | (28,595,899) |
| – Discontinued operation | **–** | (8,112,306) |
| Non-controlling interests | | |
| – Continuing operations | **(178)** | (178) |
| – Discontinued operation | **–** | (214,462) |
| | **4,683,887** | (36,922,845) |

| | Notes | **2020** | 2019 |
|---|---|---|---|
| | | ***HK cents*** | *HK cents* |
| **Earnings/(loss) per share attributable to owners of the Company** | *12* | | |
| Basic and diluted | | | |
| – Continuing operations | | **0.753** | (4.920) |
| – Discontinued operation | | **–** | (3.093) |
| | | **0.753** | (8.013) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2020*

| | Notes | 2020 HK$ | 2019 HK$ |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **7,054,871** | 5,978,098 |
| Intangible asset | | **420,000** | 420,000 |
| Right-of-use assets | | **9,120,384** | 8,580,851 |
| Prepayments for acquisition of property, plant and equipment | | **1,017,221** | – |
| Investment in TV programmes | *13* | **31,947,743** | – |
| Long-term financial assets investments | | **–** | – |
| | | **49,560,219** | 14,978,949 |
| **Current assets** | | | |
| Inventories | | **1,961,774** | 2,243,733 |
| Trade and other receivables, prepayments and deposits | *14* | **33,045,573** | 30,924,775 |
| Investment in TV programmes | *13* | **–** | 26,850,000 |
| Contract assets | | **–** | 624,000 |
| Tax recoverable | | **574,887** | 393,790 |
| Cash and cash equivalents | | **8,819,535** | 10,270,969 |
| | | **44,401,769** | 71,307,267 |
| **Current liabilities** | | | |
| Trade and other payables | *15* | **32,799,023** | 28,240,339 |
| Lease liabilities | | **2,968,248** | 2,911,480 |
| Contract liabilities | | **–** | 783,900 |
| Other borrowings | | **276,243** | 1,715,385 |
| | | **36,043,514** | 33,651,104 |
| **Net current assets** | | **8,358,255** | 37,656,163 |
| **Total assets less current liabilities** | | **57,918,474** | 52,635,112 |

| | 2020 | 2019 |
|---|---|---|
| | *HK$* | *HK$* |
| **Non-current liabilities** | | |
| Lease liabilities | **7,518,788** | 6,919,313 |
| Deferred tax liabilities | **4,707** | 4,707 |
| | **7,523,495** | 6,924,020 |
| **Net assets** | **50,394,979** | 45,711,092 |
| **EQUITY** | | |
| Share capital | **105,069,500** | 105,069,500 |
| Reserves | **(54,905,366)** | (59,589,431) |
| Equity attributable to owners of the Company | **50,164,134** | 45,480,069 |
| Non-controlling interests | **230,845** | 231,023 |
| **Total equity** | **50,394,979** | 45,711,092 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 December 2020*

| | Attributable to owners of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital *HK$* | Share premium* *HK$* | Contributed surplus* *HK$* | Share option reserve* *HK$* | Other reserves* *HK$* | Translation reserve* *HK$* | Accumulated losses* *HK$* | Total *HK$* | Non-controlling interests *HK$* | Total equity *HK$* |
| **Balance at 1 January 2019** | 105,258,500 | 363,317,716 | 13,985,669 | 3,339,000 | 7 | 4,597,923 | (408,144,617) | 82,354,198 | 5,627,670 | 87,981,868 |
| Loss for the year | – | – | – | – | – | – | (42,133,116) | (42,133,116) | (97,987) | (42,231,103) |
| Other comprehensive income/(loss) | | | | | | | | | | |
| – Exchange differences on translation of financial statements of foreign operations | – | – | – | – | – | 57,364 | – | 57,364 | (116,653) | (59,289) |
| – Release of translation reserve on disposal of subsidiaries | – | – | – | – | – | 5,367,547 | – | 5,367,547 | – | 5,367,547 |
| **Total comprehensive income/(loss) for the year** | – | – | – | – | – | 5,424,911 | (42,133,116) | (36,708,205) | (214,640) | (36,922,845) |
| Repurchase of shares | (189,000) | 23,076 | – | – | – | – | – | (165,924) | – | (165,924) |
| Effect on disposal of subsidiaries | – | – | – | – | – | – | – | – | (5,182,007) | (5,182,007) |
| **Transactions with owners** | (189,000) | 23,076 | – | – | – | – | – | (165,924) | (5,182,007) | (5,347,931) |
| **Balance at 31 December 2019** | 105,069,500 | 363,340,792 | 13,985,669 | 3,339,000 | 7 | 10,022,834 | (450,277,733) | 45,480,069 | 231,023 | 45,711,092 |

| | Attributable to owners of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium* | Contributed surplus* | Share option reserve* | Other reserves* | Translation reserve* | Accumulated losses* | Total | Non-controlling interests | Total equity |
| | *HK$* | *HK$* | *HK$* | *HK$* | *HK$* | *HK$* | *HK$* | *HK$* | *HK$* | *HK$* |
| **Balance at 1 January 2020** | **105,069,500** | **363,340,792** | **13,985,669** | **3,339,000** | **7** | **10,022,834** | **(450,277,733)** | **45,480,069** | **231,023** | **45,711,092** |
| Profit/(loss) for the year | – | – | – | – | – | – | **3,955,709** | **3,955,709** | **(178)** | **3,955,531** |
| Other comprehensive income | | | | | | | | | | |
| – Exchange differences on translation of financial statements of foreign operations | – | – | – | – | – | **728,356** | – | **728,356** | – | **728,356** |
| **Total comprehensive income/(loss) for the year** | – | – | – | – | – | **728,356** | **3,955,709** | **4,684,065** | **(178)** | **4,683,887** |
| **Balance at 31 December 2020** | **105,069,500** | **363,340,792** | **13,985,669** | **3,339,000** | **7** | **10,751,190** | **(446,322,024)** | **50,164,134** | **230,845** | **50,394,979** |

* The total of these accounts as at the reporting date represents "Reserves" of HK$54,905,366 (2019: HK$59,589,431) in deficit in the consolidated statement of financial position.

## 1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collectively includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the accounting principles generally accepted in Hong Kong. The consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and include the applicable disclosure requirements of the Rules Governing the Listing of Securities on GEM of the Stock Exchange.

The significant accounting policies that have been used in the preparation of these consolidated financial statements have been consistently applied to all the years presented unless otherwise stated. The adoption of new or amended HKFRSs and the impacts on the Group's financial statements, if any, are disclosed in note 2.

The consolidated financial statements have been prepared on the historical cost basis except for investment in TV programmes and long-term financial assets investments which are measured at fair values.

It should be noted that accounting estimates and assumptions are used in preparation of the consolidated 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 AND AMENDED HKFRSs

### (a) Amended HKFRSs

In the current year, the Group has applied for the first time the following amended HKFRSs issued by the HKICPA which are relevant to the Group's operations and effective for the Group's consolidated financial statements for the annual period beginning on 1 January 2020:

| | |
|---|---|
| Amendments to HKAS 1 (Revised) and HKAS 8 | Definition of Material |
| Amendments to HKFRS 3 (Revised) | Definition of a Business |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | Interest Rate Benchmark Reform |
| Conceptual Framework for Financial Reporting 2018 | Revised Conceptual Framework for Financial Reporting |

In addition, in the preparation of the consolidated financial statements for the year ended 31 December 2020, the Group has early applied the Amendments to HKFRS 16 *Covid-19-Related Rent Concessions*, which are mandatorily effective for annual reporting periods beginning on or after 1 June 2020.

Except as describe below, the adoption of the amended HKFRSs in the current year had no material impact on how the results and financial position for the current and prior periods have been prepared and presented and/or on the disclosures set out in these consolidated financial statements.

***Impacts on early application of Amendment to HKFRS 16 Covid-19-Related Rent Concessions***

The Group has early applied the amendment for the first time in the current year. The amendment introduces a practical expedient for lessees to elect not to assess whether a Covid-19-related rent concession is a lease modification. The practical expedient only applies to rent concessions occurring as a direct consequence of the Covid-19 that meets all of the following conditions:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and

- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 *Leases* if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

The Group has applied the practical expedient to rent concessions that meet the above conditions in respect of lease arrangements for which lease liabilities are recognised. The application of the amendment had no impact to the opening retained profits at 1 January 2020. During the year ended 31 December 2020, an amount of HK$26,998 is credited to other income to reflect changes in lease liabilities that arise from rent concessions relating to the lease in one of the subsidiaries of the Company.

**(b) New and revised HKFRSs not yet adopted**

The Group has not applied the following new and amended HKFRSs, which have been issued but are not yet effective, in these consolidated financial statements.

| | |
|---|---|
| Amendments to HKFRS 3 (Revised) | Reference to the Conceptual Framework[2] |
| Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 | Interest Rate Benchmark Reform – Phase 2[1] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4] |
| HKFRS 17 | Insurance Contracts and the related amendments[3] |
| Amendments to HKAS 1 (Revised) | Classification of Liabilities as Current or Non-current and related amendments to HK Interpretation 5 (2020)[3] |
| Amendments to HKAS 16 | Property, Plant and Equipment – Proceeds before Intended Use[2] |
| Amendments to HKAS 37 | Onerous Contracts – Cost of Fulfilling a Contract[2] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2018 – 2020[2] |

[1] Effective for annual periods beginning on or after 1 January 2021
[2] Effective for annual periods beginning on or after 1 January 2022
[3] Effective for annual periods beginning on or after 1 January 2023
[4] Effective date not yet determined

The directors of the Company anticipate that the application of all new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

## 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 of the Company for the purposes of resources allocation and assessment of segment performance. The business components in the internal reporting to the executive directors of the Company, the chief operating decision-makers, are determined following the Group's major product and service lines. The Group is currently organised into the following five operating segments:

- Sales of smart cards;
- Sales of smart card application systems;
- Financial and management consultancy services;
- Sale and trading of scrap metals; and
- Media and entertainment.

Each of these operating segments is managed separately as each of the product and service lines requires different resources as well as marketing approaches.

During the year ended 31 December 2019, operation in sales of petrochemical products was discontinued. The segment information reported below does not include any amounts for this discontinued operation, which is described in more details in note 10.

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/(loss) before income tax is the same as those used in preparing these consolidated financial statements under HKFRSs except that finance costs, impairment loss on other receivables, gain on disposal of subsidiaries, exchange gains/(losses), net and corporate expenses, net 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 asset, tax recoverable, 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 cash equivalents.

Segment liabilities include all liabilities except for deferred 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 other borrowings.

**Segment results, segment assets and segment liabilities**

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

**2020**

| | Sales of smart cards *HK$* | Sales of smart card application systems *HK$* | Financial and management consultancy services *HK$* | Sale and trading of scrap metals *HK$* | Media and entertainment *HK$* | Unallocated *HK$* | Consolidated *HK$* |
|---|---|---|---|---|---|---|---|
| **Reportable segment revenue** | 76,098,019 | 600 | – | – | – | – | 76,098,619 |
| **Reportable segment profit/(loss)** | 10,260,192 | (9,288) | (128,231) | (3,305,991) | 3,246,889 | – | 10,063,571 |
| Finance costs | | | | | | | (394,596) |
| Impairment loss on other receivables | | | | | | | (266,953) |
| Exchange losses, net | | | | | | | (357) |
| Corporate expenses, net | | | | | | | (5,466,134) |
| Profit before income tax from continuing operations | | | | | | | 3,935,531 |
| **Reportable segment assets** | 39,286,967 | 3,000 | – | 3,205,113 | 38,017,743 | 3,634,743 | 84,147,566 |
| Intangible asset | | | | | | | 420,000 |
| Tax recoverable | | | | | | | 574,887 |
| Cash and cash equivalents | | | | | | | 8,819,535 |
| Total consolidated assets | | | | | | | 93,961,988 |
| **Reportable segment liabilities** | 38,701,894 | 12,000 | – | 230,573 | – | 4,341,592 | 43,286,059 |
| Other borrowings | | | | | | | 276,243 |
| Deferred tax liabilities | | | | | | | 4,707 |
| Total consolidated liabilities | | | | | | | 43,567,009 |
| **Other information** | | | | | | | |
| Depreciation of property, plant and equipment | 2,521,431 | – | – | 1,240 | – | 10,928 | 2,533,599 |
| Depreciation of right-of-use assets | 2,029,380 | – | – | – | – | 980,388 | 3,009,768 |
| Interest income | 7,723 | – | – | 439 | – | 1 | 8,163 |
| Additions to non-current segment assets during the year | 4,605,779 | – | – | – | – | 2,704,085 | 7,309,864 |

**2019**

| | Sales of smart cards *HK$* | Sales of smart card application systems *HK$* | Financial and management consultancy services *HK$* | Sale and trading of scrap metals *HK$* | Media and entertainment *HK$* | Unallocated *HK$* | Consolidated *HK$* |
|---|---|---|---|---|---|---|---|
| **Reportable segment revenue** | 58,162,384 | 50,480 | – | 9,399,872 | – | – | 67,612,736 |
| **Reportable segment profit/(loss)** | 3,372,269 | (10,821) | (1,043,467) | (1,621,857) | (655) | – | 695,469 |
| Finance costs | | | | | | | (589,573) |
| Impairment loss on other receivables | | | | | | | (24,625,687) |
| Gain on disposal of subsidiaries | | | | | | | 5,006,003 |
| Exchange gains, net | | | | | | | 1,039,144 |
| Corporate expenses, net | | | | | | | (7,394,686) |
| Loss before income tax from continuing operations | | | | | | | (25,869,330) |
| **Reportable segment assets** | 36,078,635 | 11,395 | – | 3,373,050 | 26,850,000 | 8,888,377 | 75,201,457 |
| Intangible asset | | | | | | | 420,000 |
| Tax recoverable | | | | | | | 393,790 |
| Cash and cash equivalents | | | | | | | 10,270,969 |
| Total consolidated assets | | | | | | | 86,286,216 |
| **Reportable segment liabilities** | 35,459,762 | 16,500 | – | 324,815 | – | 3,053,955 | 38,855,032 |
| Other borrowings | | | | | | | 1,715,385 |
| Deferred tax liabilities | | | | | | | 4,707 |
| Total consolidated liabilities | | | | | | | 40,575,124 |
| **Other information** | | | | | | | |
| Depreciation of property, plant and equipment | 2,206,332 | – | – | 63,609 | – | 10,928 | 2,280,869 |
| Depreciation of right-of-use assets | 1,752,355 | – | – | – | – | 898,689 | 2,651,044 |
| Interest income | 3,129 | 7 | – | 551 | – | 205 | 3,892 |
| Additions to non-current segment assets during the year | 4,113,518 | – | – | – | – | 1,960,784 | 6,074,302 |

There has been no inter-segment sale between different business segments during the year or in prior year.

**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 | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| | ***HK$*** | *HK$* | ***HK$*** | *HK$* |
| **Continuing operations** | | | | |
| The People's Republic of China (the "PRC") | **5,920,112** | 3,198,704 | **13,720,232** | 12,605,527 |
| Europe | **39,827,024** | 25,337,690 | **–** | – |
| Africa | **28,041,214** | 26,383,058 | **–** | – |
| Asia, excluding the PRC, Hong Kong and Taiwan | **2,241,824** | 3,118,973 | **–** | – |
| Hong Kong | **68,445** | 174,439 | **3,891,917** | 2,371,897 |
| Taiwan | **–** | 9,399,872 | **327** | 1,525 |
| | **76,098,619** | 67,612,736 | **17,612,476** | 14,978,949 |

The Company is an investment holding company incorporated in the Cayman Islands where the Company does not have activities. Since the major operations of the Group are conducted in the PRC, which is considered as the Group's country of domicile for the disclosure purpose of HKFRS 8 "*Operating Segments*".

Specified non-current assets include property, plant and equipment, intangible assets, right-of-use assets, prepayments for acquisition of property, plant and equipment only.

The geographical location of customers is based on the principal place of business of the customers. The geographical location of the specified non-current assets is based on the location of assets.

**Information about major customers**

Revenue from each of the major customers during the reporting period is as follows:

| | **2020** | 2019 |
|---|---|---|
| | ***HK$*** | *HK$* |
| **Continuing operations** | | |
| Customer A – Sale of smart cards | **39,016,344** | 24,959,319 |
| Customer B – Sale of smart cards | **27,799,413** | 26,035,470 |
| Customer C – Sale and trading of scrap metals[1] | **–** | 9,399,872 |

[1] The customer did not contribute any revenue to the Group for the year ended 31 December 2020.

## 4. REVENUE

The Group's revenue from continuing operations for goods transferred at a point in time from external customers is as follows:

| | **2020** | 2019 |
|---|---|---|
| | ***HK$*** | *HK$* |
| **Continuing operations – by product lines** | | |
| Sales of smart cards | **76,098,019** | 58,162,384 |
| Sales of smart card application systems | **600** | 50,480 |
| Sales and trading of scrap metals | **–** | 9,399,872 |
| | **76,098,619** | 67,612,736 |

**Continuing operations**

| | **2020** | | |
|---|---|---|---|
| | **Sales of smart cards** | **Sales of smart card application systems** | **Sale and trading of scrap metals** |
| | ***HK$*** | ***HK$*** | ***HK$*** |
| **Geographical markets** | | | |
| The PRC | **5,920,112** | **–** | **–** |
| Europe | **39,827,024** | **–** | **–** |
| Africa | **28,041,214** | **–** | **–** |
| Asia, excluding the PRC, Hong Kong and Taiwan | **2,241,824** | **–** | **–** |
| Hong Kong | **67,845** | **600** | **–** |
| Total | **76,098,019** | **600** | **–** |

| | 2019 | | |
|---|---|---|---|
| | Sales of smart cards | Sales of smart card application systems | Sale and trading of scrap metals |
| | *HK$* | *HK$* | *HK$* |
| **Geographical markets** | | | |
| The PRC | 3,198,704 | – | – |
| Europe | 25,337,690 | – | – |
| Africa | 26,383,058 | – | – |
| Asia, excluding the PRC, Hong Kong and Taiwan | 3,118,973 | – | – |
| Hong Kong | 123,959 | 50,480 | – |
| Taiwan | – | – | 9,399,872 |
| Total | 58,162,384 | 50,480 | 9,399,872 |

## 5. OTHER INCOME

| | **2020** | 2019 |
|---|---|---|
| | ***HK$*** | *HK$* |
| **Continuing operations** | | |
| Bank interest income | **8,163** | 3,892 |
| Government subsidies *(note (i))* | **747,000** | 18,558 |
| Reversal of over-provision for bonus in prior year | **–** | 612,402 |
| Rent concession in relation to COVID-19 *(note (ii))* | **26,998** | – |
| Sundry income | **249,658** | 478,181 |
| | **1,031,819** | 1,113,033 |

*Notes:*

(i) The government subsidies recognised for the year ended 31 December 2020 were the approved subsidies from the COVID-19 Anti-epidemic Fund under the Employment Support Scheme as promulgated by the Government of the Hong Kong Special Administrative Region of the People's Republic of China. There are no unfulfilled conditions or other contingencies attached to these subsidies.

(ii) The Group was granted a rent concession in relation to COVID-19 for a factory during the year (2019: nil). The Group applied the practical expedient in paragraph 46A of HKFRS 16 for its rent concession in relation to COVID-19, such that the Group elects not to assess whether the rent concession that meets the conditions in paragraph 46B of HKFRS 16 is a lease modification.

## 6. OTHER (LOSSES)/GAINS, NET

| | **2020** | 2019 |
|---|---|---|
| | ***HK$*** | *HK$* |
| **Continuing operations** | | |
| Gain on disposal of assets classified as held for sale | **–** | 1,467,398 |
| Loss on disposal of property, plant and equipment | **(6,863)** | – |
| Gain on disposal of subsidiaries | **–** | 5,006,003 |
| Exchange (losses)/gains, net | **(357)** | 1,039,144 |
| | **(7,220)** | 7,512,545 |

## 7. FINANCE COSTS

| | **2020** | 2019 |
|---|---|---|
| | ***HK$*** | *HK$* |
| **Continuing operations** | | |
| Interest charges on other borrowings | **–** | 106,046 |
| Finance charges on lease liabilities | **394,596** | 483,527 |
| | **394,596** | 589,573 |

## 8. PROFIT/(LOSS) BEFORE INCOME TAX

| | 2020<br>HK$ | 2019<br>HK$ |
|---|---|---|
| **Continuing operations** | | |
| Profit/(loss) before income tax from continuing operations is arrived at after charging: | | |
| Auditor's remuneration | | |
| – Audit services | **650,000** | 760,406 |
| – Non-audit services | **–** | 121,802 |
| Short-term leases and leases with lease term shorter than 12 months | **944,204** | 1,524,703 |
| Variable lease payments not included in the measurement of lease liabilities | **1,524,737** | 1,141,813 |
| Costs of inventories recognised as an expense *(note)* | **51,934,626** | 48,223,752 |
| Impairment losses on trade receivables | **25,243** | 1,908 |
| Impairment losses on other receivables | **266,953** | 24,625,687 |
| Depreciation | | |
| – Property, plant and equipment | **2,533,599** | 2,280,869 |
| – Right-of-use assets | **3,009,768** | 2,651,044 |
| Employee benefit expenses | **22,578,430** | 21,995,381 |

*Note:*

Cost of inventories includes HK$14,890,320 (2019: HK$14,424,672) relating to depreciation of property, plant and equipment, depreciation of right-of-use assets, employee benefits expenses and lease charges. Cost of inventories also includes written down of inventories of HK$9,400 (2019: nil).

## 9. INCOME TAX CREDIT

| | **2020** | 2019 |
|---|---|---|
| | ***HK$*** | *HK$* |
| **Continuing operations** | | |
| **Current tax** | | |
| Hong Kong Profits Tax: | | |
| Over-provision in prior year | **20,000** | – |
| Total income tax credit | **20,000** | – |

*Notes:*

**(a) Hong Kong**

Under the two-tiered profits tax rates regime in Hong Kong, the first HK$2,000,000 of profits of qualifying group entity will be taxed at 8.25%, and the profits above HK$2,000,000 will be taxed at 16.5%. The profits of entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. No Hong Kong Profits Tax has been provided for the years as the Group did not generate any estimated assessable profits in Hong Kong during the year (2019: nil).

**(b) PRC**

The PRC Enterprise Income Tax has been calculated at 25% (2019: 25%) on the estimated assessable profits for the year based on the existing legislation, interpretations and practices in respect thereof. No PRC Enterprise Income Tax has been provided for the year as the Group has sufficient tax losses brought forward to set off against assessable profits in the PRC during the year (2019: nil).

**(c) Other jurisdictions**

Pursuant to the rules and regulations of the Cayman Islands, the British Virgin Islands (the "BVI") and Taiwan, the Group is not subject to any income tax in the Cayman Islands, the BVI and Taiwan (2019: nil).

## 10. DISCONTINUED OPERATION

On 12 December 2019, the Group disposed of its 100% equity interests in Waywise Step International Limited ("Waywise Step International") and ceased the business in sales of petrochemical products thereafter. Waywise Step International holds the entire interest in Phoenitron Resources Company Limited ("Phoenitron HK"), which in turn, holds 75% of equity interest in Shanghai Phoenitron Petroleum & Chemical Company Limited ("Shanghai Phoenitron") and its wholly-owned subsidiary (collectively the "Waywise Group").

**Analysis of loss for the period from discontinued operation**

The results of the discontinued operation included in the consolidated statement of profit or loss and other comprehensive income are set out below.

***Loss for the period from discontinued operation***

| | For the period from 1 January 2019 to 12 December 2019 |
|---|---|
| | *HK$* |
| Revenue | – |
| Other income | 10 |
| Other losses, net | (615,682) |
| Administrative expenses | (403,258) |
| Loss from discontinued operation before income tax | (1,018,930) |
| Income tax expense | – |
| Loss for the period | (1,018,930) |
| Loss on disposal of subsidiaries | (15,342,843) |
| **Loss for the period from discontinued operation** | (16,361,773) |
| **Loss for the period from discontinued operation attributable to:** | |
| Owners of the Company | (16,263,964) |
| Non-controlling interests | (97,809) |
| | (16,361,773) |

None of depreciation and amortisation and auditors' remuneration included in loss for the period from discontinued operation.

## 11. DIVIDENDS

The Board does not recommend the payment of any dividend in respect of the year ended 31 December 2020 (2019: nil).

## 12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculations of basic earnings/(loss) per share from (i) continuing and discontinued operations; (ii) continuing operations; and (iii) discontinued operation are based on the profit/(loss) for the year attributable to owners of the Company and the weighted average number of respective ordinary shares in issue of 525,347,500 (2019: 525,776,719) during the year.

The calculations of diluted earnings/(loss) per share from (i) continuing and discontinued operations; (ii) continuing operations; and (iii) discontinued operation are based on the respective adjusted profit/(loss) for the years attributable to owners of the Company and the adjusted weighted average number of ordinary shares outstanding both of which are adjusted to assume exercise or conversion of all dilutive potential ordinary shares.

As at 31 December 2020 and 2019, the Company has outstanding share options. For the outstanding share options, the number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market price per share for the year) for the same total proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted earnings/(loss) per share.

As the Company's outstanding share options had an anti-dilutive effect to the basic loss per share from continuing operations calculation for the year ended 31 December 2019 and the exercise price of share option is higher than the average market price per share for the year ended 31 December 2020, the exercise of the above potential ordinary shares is not assumed in the computation of diluted earnings/(loss) per share. Therefore, the diluted earnings/(loss) per share attributable to owners of the Company for year ended 31 December 2020 and 2019 is the same as the basic earnings/(loss) per share.

## 13. INVESTMENT IN TV PROGRAMMES

| | ***HK$*** |
|---|---:|
| As at 1 January 2019 | – |
| Additions | 26,850,000 |
| As at 31 December 2019 and 1 January 2020 | **26,850,000** |
| Total gains included in profit or loss: | |
| Fair value charge | **3,247,844** |
| Exchange difference arising form translation, included in other (losses)/gains, net | **1,849,899** |
| **As at 31 December 2020** | **31,947,743** |

During the year ended 31 December 2019, the Group entered into a joint production agreement and supplemental agreement (collectively, the "Joint Production Agreement") with Zhe Jiang You Sheng, an independent TV programmes producer, pursuant to which the Group agreed to invest RMB24,000,000 (equivalent to approximately HK$26,850,000) in the production of TV programmes "Snow Leopard II", representing 30% of the budgeted production costs. In accordance with the Joint Production Agreement, the Group has no control, significant influence or joint control over the investment.

Pursuant to the Joint Production Agreement, if the actual production costs exceed the budgeted production costs, Zhe Jiang You Sheng would bear all addition costs. The Group is not liable and borne by any addition costs and the interests in the investment in TV programmes would be still maintained at 30%.

The Group is entitled to 30% of net profit generated by the TV programmes for five years, after obtained broadcasting approval from the PRC government authority. Up to the date of this announcement, the TV programmes are still under production.

As at 31 December 2019, with reference to the production progress provided by Zhe Jiang You Sheng, the Directors were tentatively expected the TV programmes to be released in the PRC and received the net profit distribution during the year ended 31 December 2020. Therefore, the investment in TV programmes was classified as current assets as at 31 December 2019.

Due to the outbreak of the novel coronavirus epidemic in the PRC in January 2020, the production progress of the TV programmes was significantly affected and deferred. With reference to the revised production progress provided by Zhe Jiang You Sheng, the Directors are tentatively expected the TV programmes to be released in the PRC during the year ending 31 December 2021 and received the net profit distribution before June 2022. Therefore, the investment in TV programmes is classified as non-current assets as at 31 December 2020.

## 14. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

| | **2020** | 2019 |
|---|---|---|
| | ***HK$*** | *HK$* |
| Trade receivables | **17,303,045** | 13,816,756 |
| Less: Expected credit loss ("ECL") allowance | **(29,190)** | (3,947) |
| Trade receivables, net *(note)* | **17,273,855** | 13,812,809 |
| Other receivables, prepayments and deposits | **41,826,645** | 42,899,940 |
| Less: ECL allowance | **(26,054,927)** | (25,787,974) |
| Other receivables, prepayments and deposits, net | **15,771,718** | 17,111,966 |
| | **33,045,573** | 30,924,775 |

*Note:*

The credit term granted by the Group to its trade customers normally ranges from 30 days to 90 days (2019: 30 days to 90 days). Based on the invoice dates, the ageing analysis of the Group's trade receivables (net of ECL allowance) is as follows:

| | **2020** | 2019 |
|---|---|---|
| | ***HK$*** | *HK$* |
| 0 – 30 days | **8,066,579** | 5,494,533 |
| 31 – 90 days | **8,929,348** | 7,071,724 |
| Over 90 days | **307,118** | 1,250,499 |
| Less: ECL allowance | **(29,190)** | (3,947) |
| | **17,273,855** | 13,812,809 |

## 15. TRADE AND OTHER PAYABLES

| | **2020** | 2019 |
|---|---|---|
| | ***HK$*** | *HK$* |
| Trade payables *(note)* | **24,191,397** | 19,056,397 |
| Other payables and accrual | **8,607,626** | 9,183,942 |
| | **32,799,023** | 28,240,339 |

*Note:*

Credit periods granted by suppliers normally range from 30 days to 90 days (2019: 30 days to 90 days). Based on the invoice date, the ageing analysis of the trade payables is as follows:

| | **2020** | 2019 |
|---|---|---|
| | ***HK$*** | *HK$* |
| 0 – 30 days | **4,197,731** | 3,086,503 |
| 31 – 60 days | **3,041,264** | 2,215,162 |
| 61 – 90 days | **2,970,129** | 1,167,186 |
| Over 90 days | **13,982,273** | 12,587,546 |
| | **24,191,397** | 19,056,397 |

## EXTRACT OF INDEPENDENT AUDITOR'S REPORT ON THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

Moore Stephens CPA Limited were engaged to audit the consolidated financial statements of the Group. The section below sets out an extract of the independent auditor's report regarding the consolidated financial statements of the Group for the year:

## QUALIFIED OPINION

We have audited the consolidated financial statements of Phoenitron Holdings Limited (the "Company") and its subsidiaries (together, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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 2020, 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 the impairment loss on other receivables from the Petroleum Company receivable by the Group during the year ended 31 December 2020**

We were appointed as the auditor of the Company in respect of the Group's consolidated financial statements for the year ended 31 December 2020 on 30 June 2020.

The consolidated financial statements of the Group for the year ended 31 December 2019 were audited by another auditor (the "Predecessor Auditor") whose report dated 14 May 2020 expressed a qualified opinion in respect of the matters as described below (the "Predecessor Auditor's Report").

The Group's trade and other receivables, prepayments and deposits as at 31 December 2020 included "other receivables" due from a petroleum company (the "Petroleum Company") with the carrying amount (net of allowance for expected credit loss) of Nil (2019: Nil). On 10 December 2018, the Group has outstanding trade receivables due from a customer and the customer has assigned such "other receivables" to the Group. As at 31 December 2018, the gross amount of such "other receivables" from the Petroleum Company amounted to 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 the year ended 31 December 2018 and up to the date of the disposal on 12 December 2019. No expected credit loss allowance was recognised against these receivables during the year ended 31 December 2018.

The Petroleum Company 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 had 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 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 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 of RMB1,457,266 (equivalent to approximately HK$1,619,184) during the year ended 31 December 2019.

The Group 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 operation. 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 operation of HK$1,018,930 during the year ended 31 December 2019.

In respect of the abovementioned transactions and balances occurred and recorded, as mentioned in the Predecessor Auditor's Report, the Predecessor Auditor was 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 themselves as to the recoverability of the "other receivables" due from the Petroleum Company at the date of disposal of the subsidiaries and as at 31 December 2018 and 2019. The Predecessor Auditor was not able to receive satisfactory direct confirmation reply from the Petroleum Company to confirm the receivable balances with them and was also not able to obtain all the necessary corroborative evidence from the counterparties to substantiate the abovementioned transactions and the related outstanding balances. Therefore, the Predecessor Auditor was 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 operation 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 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.

During our audit in respect of the year ended 31 December 2020, the issues described above remained unsolved. The Group had lost contact with the Petroleum Company and failed to reach them in their registered office. The Group has already taken legal proceeding against the Petroleum Company and requested for immediate repayment. As at 31 December 2020, the directors of the Company considered that the Petroleum Company was default in payment and believed that the possibility of recovery of the other receivables from the Petroleum Company was remote. We were not able to obtain direct confirmations reply from the Petroleum Company to confirm the receivable balances as at 31 December 2020 and 2019. Nor were we able to collect the necessary corroborative evidence from the related counterparties and satisfactory management response to substantiate the abovementioned transactions. Since the opening balance of the "other receivables" affect the determination of the results of the Group for the year ended 31 December 2020 and the elements making up the consolidated statement of cash flows for the year ended 31 December 2020 and the related disclosures, we were unable to determine whether adjustments to the Group's results and opening accumulated losses might be necessary for the year ended 31 December 2020.

Our opinion on the current year's consolidated financial statements is also qualified because of the possible effect of this matter on the comparability of the current year's figures and the corresponding figures.

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.

## MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

### Revenue

For the financial year ended 31 December 2020 (the "Reporting Period"), the Group's financial result was principally derived from the contract manufacturing and sales of smart cards.

During the Reporting Period, the Group's revenue generated from the SIM card manufacturing business amounted to approximately HK$76.1 million, an increase of approximately HK$17.9 million or 30.8% as compared to the corresponding period in 2019 of approximately HK$58.2 million.

There was no revenue generated from the Group's trading of scrap metals business in Taiwan for the Reporting Period (2019: HK$9.4 million).

### Cost of Sales ("COS") and Gross Profit

During the Reporting Period, due to the increase in revenue by 30.8% year-on-year, cost of sales incurred for the SIM card manufacturing business also up by approximately HK$12.8 million or 32.7% from approximately HK$39.1 million for corresponding period in 2019 to approximately HK$51.9 million.

There was no cost of sales generated from the Group's trading of scrap metals business in Taiwan (2019: HK$9.1 million).

Due to the increase in revenue and a better sales-mix of an increased provision of higher-value-added service (but partially offset by the price-cut offered to customers due to keen market competition), gross profit of the Group rose by approximately HK$4.8 million or 24.7%, from the corresponding period in 2019 of approximately HK$19.4 million, to approximately HK$24.2 million.

### Other Income

Other income of approximately HK$1.03 million comprised of the government subsidy of approximately HK$0.75 million and sundry and other income of approximately HK$0.28 million (2019: approximately HK$1.11 million; comprised of overprovision of bonus for prior years of approximately HK$0.61 million and sundry and other income of approximately HK$0.50 million).

### Other (Losses)/Gains, Net

During the Reporting Period, other losses amounted to HK$7,220 which was primarily attributable to the loss on disposal of property, plant and equipment (2019: gains of approximately HK$7.51 million and was represented by (i) gain on disposal of subsidiaries in Beijing of approximately HK$5.00 million; (ii) gain on disposal of assets classified as held for sale of approximately HK$1.47 million and (iii) exchange gains arising from foreign currency based transactions of approximately HK$1.04 million).

## Selling and Distribution Costs

During the Reporting Period, selling and distribution costs amounted to approximately HK$3.02 million, representing a decline of approximately HK$0.65 million, or 17.7%, as compared to the corresponding period in 2019 of approximately HK$3.67 million. The decrease was mainly due to the decreases in various sales-related expenses such as freight charges, transportation costs and overseas travelling expenses, partly caused by the Group's cost control measures and partly caused by the effect of COVID-19 (e.g. on cross-border travelling).

## Administrative Expenses

Administrative expenses recorded a drop of approximately HK$4.2 million, or 16.8% during the Reporting Period, from approximately HK$25.0 million for the corresponding period in 2019, to approximately HK$20.8 million. The decrease was primarily attributable to the substantial drop in legal and professional fees of about HK$2.3 million and it incurred an one-off expense of about HK$1.6 million in 2019 in relation to the receivable from the Petroleum Company.

## Impairment Loss on Other Receivables

During the Reporting Period, an impairment loss on other receivables amounted to approximately HK$0.27 million (2019: approximately HK$24.63 million which is primarily relating to the impairment loss on other receivables from the Petroleum Company).

## Change in Fair Value of Investment in TV Programmes

During the Reporting Period, a fair value gain on investment in TV programmes of approximately HK$3.25 million was recognised (2019: nil).

## Finance Costs

During the Reporting Period, the Group's finance costs amounted to approximately HK$0.40 million (2019: approximately HK$0.59 million). The decrease was mainly attributable to the fact that no interests on borrowings was incurred during the Reporting Period.

## Income Tax Expense

During the Reporting Period, an income tax credit of approximately HK$0.02 million, which is primarily attributable to the over-provision of Hong Kong Profits Tax in prior year arising from the SIM card business (2019: nil).

## Loss for the Period from Discontinued Operation

During the Reporting Period, there was no disposal of discontinued operation. (2019: operating loss of approximately HK$16.4 million).

## Non-controlling Interest

During the Reporting Period, a loss of HK$178 attributable to the non-controlling interests was recognised (2019: approximately HK$0.1 million).

As a result of the foregoing, profit attributable to owners of the Company for the Reporting Period for each of the continuing operations and the discontinued operation amounted to approximately HK$3.96 million and nil respectively (2019: loss of approximately HK$25.9 million and HK$16.3 million respectively).

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

The Company's auditor expressed a qualified opinion on the Company's consolidated financial statements for the year ended 31 December 2020. The qualification is on the prior year's audit scope limitation affecting comparative figures and the impairment loss on other receivables from the Petroleum Company receivable by the Group during the year ended 31 December 2020 (the "Audit Qualification").

In respect of the audit qualification relating to the matters in 2019, the Company already tried its best and has addressed the concerns raised by the predecessor auditor. Details of which have been disclosed under the section headed "The Group's response to the basis of qualified opinion" of the Company's annual report 2019 and the supplemental announcement of the Company dated 4 September 2020.

During the Reporting Period, the Petroleum Company did not repay to the Company according to the repayment agreement and the other receivables are past due as at 31 December 2020. The Group lost contact with the Petroleum Company and failed to reach them in their registered office during the Reporting Period. We considered that the Petroleum Company was default in payment and the other receivables from the Petroleum Company were credit-impaired, thus the probabilities of recovery of such balance was remote. Nevertheless, the Company is currently undergoing legal procedures in the PRC with a view to recover the outstanding receivables.

During the course of current year's audit, the Company has tried its best to assist the auditor in getting the required audit evidences including but not limited to appointing a PRC lawyer to assist the auditor to perform relevant audit procedures (including the serving of audit confirmation) and arranging meeting between the Company's PRC lawyer and the auditor for discussions and explanations were made to the auditor if required. In additions, at the request of the auditor, a letter for explaining the status and situation that the Group has taken necessary actions for recovery of other receivables due from the Petroleum Company was issued by the PRC lawyer and addressed to the auditor directly.

### The actual or potential impact on the Company's financial position

In relation to the Audit Qualification, the auditor was not able to obtain direct confirmations reply from the Petroleum Company to confirm the receivable balances as at 31 December 2020 and 2019. Nor were they able to collect the necessary corroborative evidence from the related counterparties and satisfactory management response to substantiate the abovementioned transactions. Since the opening balance of the "other receivables" affect the determination of the results of the Group for the year ended 31 December 2020 and the elements making up the consolidated statement of cash flows for the year ended 31 December 2020 and the related disclosures, the auditor was unable to determine whether adjustments to the Group's results and opening accumulated losses might be necessary for the year ended 31 December 2020. In additions, the current year's consolidated financial statements is also qualified because of the possible effect of this matter on the comparability of the current year's figures and the corresponding figures.

Since the other receivables from the Petroleum Company has been fully impaired during the year ended 31 December 2019, the Audit Qualification would not affect the financial position and the balance of reserves of the Group as at 31 December 2020.

**The Management's position and basis on major judgmental areas**

Due to the loss of contact with the Petroleum Company during the course of audit, the auditor was unable to receive a direct confirmation reply from the Petroleum Company to confirm the transactions and the relevant accounts receivable balances. However, the Company has tried its best to assist the auditor in getting the required audit evidences (as described above). Nonetheless, the Management agreed that the auditor may not have sufficient third-party evidence to ascertain the background and financial strength of the Petroleum Company so as to satisfy themselves as to the recoverability of the other receivables from the Petroleum Company as at 31 December 2019 and at the date of disposal of Waywise Step International.

**Audit committee's view**

It is clear to the members of the Company's audit committee regarding the Audit Qualification and they agreed with management's view on the Audit Qualification.

**The Company's proposed plans and timetable to address the Audit Qualification**

With regarding to the balance of other receivables due from the Petroleum Company, it is expected that a qualified opinion on the relevant comparative figures and the comparability will be issued on the Independent Auditor's Report of the Company for the financial year 2021 (that is, on the relevant figures of 2020), and no qualified opinion in respect of 2021's figures on the consolidated statement of profit or loss and other comprehensive income will be issued. It is expected that the Company's 2022 financial statements will no longer have the carry forward effects of relevant Audit Qualification and a clean audit opinion would be expected.

## 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 and other borrowings. As at 31 December 2020, the Group had cash and bank balances of approximately HK$8.8 million (2019: approximately HK$10.3 million), other borrowings of approximately HK$0.3 million (2019: approximately HK$1.7 million).

As at 31 December 2020, the Group had current assets of approximately HK$44.4 million (2019: approximately HK$71.3 million) and current liabilities of approximately HK$36.0 million (2019: approximately HK$33.7 million). Due to the reclassification of investment in TV programmes from current assets to non-current assets, the current ratio, expressed as current assets over current liabilities, was 1.2 (2019: 2.1).

## EMPLOYEE INFORMATION

As at 31 December 2020, the Group's continuing operations employed a total of 144 employees (2019: 153 employees), of which 13 were located in Hong Kong and the rest were located in the PRC and Taiwan. Employee cost, including directors' remuneration, was approximately HK$22.6 million for continuing operations (2019: approximately HK$22.0 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

Save as disclosed in note 13 to consolidated financial statements, there was no other significant investments for the year ended 31 December 2020.

## 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 2020.

## FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

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

## CHARGE ON GROUP ASSETS

At 31 December 2020, there is no charge on assets of the Group (2019: nil).

## GEARING RATIO

The gearing ratio of the Group, expressed as a percentage of total borrowings including lease liabilities to total assets including right-of-use assets of the Group, was 11.5% as at 31 December 2020 (2019: 13.4%).

## FINAL DIVIDEND

The Directors does not recommend any payment of a final dividend for the year ended 31 December 2020 (2019: nil).

## COMPETING INTERESTS

As at 31 December 2020, 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.

## AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The primary role and function of the audit committee are to review the Company's financial controls, internal control and risk management systems; to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard; to review the Company's financial statements and to provide advice and comment thereon to the Board. 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 and four audit committee meetings were held during the financial year 2020.

The Group's audited results for the year ended 31 December 2020 have been reviewed and agreed by the audit committee.

## SCOPE OF WORK OF MOORE STEPHENS CPA LIMITED

The figures in respect of the Group's consolidated statement of financial position as at 31 December 2020 and consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and the related notes thereto for the year ended 31 December 2020 as set out in the preliminary announcement of the Group have been agreed by the Group's auditor, Moore Stephens CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Moore Stephens CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Moore Stephens CPA Limited on the preliminary announcement.

## 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 2020, 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 A.2.1 stipulated in the following paragraphs.

The Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer ("CEO") should be separated and should not be performed by the same individual. The division of responsibilities between the Chairman and CEO 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 CEO, 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 CEO on 23 March 2009. The reasons for not splitting the roles of chairman and CEO are as follows:

- The size of the Group is still relatively small and thus not justified in separating the roles of chairman and CEO; 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 the current structure of vesting the roles of Chairman and CEO in the same person will not impair the balance of power and authority between the Board and the management of the Company.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

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 10:00 a.m., on Tuesday, 11 May 2021, at Function Room 1, 11th Floor, L'hotel Nina et Convention Centre, 8 Yeung Uk Road, Tsuen Wan, 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 Thursday, 6 May 2021 to Tuesday, 11 May 2021 (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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Wednesday, 5 May 2021.

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

Hong Kong, 25 March 2021

*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 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.*