



PHOENITRON

PHOENITRON HOLDINGS LIMITED

品創控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8066)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2016**

**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 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. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

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

SUMMARY

- The Group recorded an unaudited turnover of HK\$1,401,937,000 for the six months ended 30 June 2016, representing an increase of 53.2% as compared with that of the corresponding period in 2015.
- The unaudited profit attributable to the owners of the Company for the six months ended 30 June 2016 was HK\$4,313,000.
- The Board does not recommend any payment of an interim dividend for the six months ended 30 June 2016.

UNAUDITED INTERIM RESULTS

The board (the “Board”) of Directors announces the unaudited consolidated results of the Company and its subsidiaries (together, the “Group”) for the three months and the six months ended 30 June 2016 together with the comparative figures for the corresponding periods in 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2016	2015	2016	2015
	Notes	HK\$	HK\$	HK\$	HK\$
Revenue	2	718,211,956	623,531,834	1,401,936,852	915,373,852
Cost of sales		<u>(711,405,343)</u>	<u>(617,133,981)</u>	<u>(1,391,028,747)</u>	<u>(900,742,165)</u>
Gross profit		6,806,613	6,397,853	10,908,105	14,631,687
Other income	3	8,990,223	11,012,042	18,035,295	21,850,342
Other (losses)/gains, net	4	(2,407,361)	1,372,973	(1,580,033)	(770,779)
Selling and distribution costs		(2,144,622)	(1,916,293)	(4,279,187)	(3,834,113)
Administrative expenses		(9,001,623)	(8,649,065)	(17,493,863)	(16,719,608)
Finance costs	5	(205,061)	(470,949)	(436,149)	(1,004,727)
Profit before income tax	6	2,038,169	7,746,561	5,154,168	14,152,802
Income tax expense	7	(244,887)	(1,127,244)	(485,592)	(1,631,040)
Profit for the period		<u>1,793,282</u>	<u>6,619,317</u>	<u>4,668,576</u>	<u>12,521,762</u>
Other comprehensive income					
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Exchange (loss)/gain on translation of financial statements of foreign operations		<u>(1,877,569)</u>	<u>465,252</u>	<u>(1,278,713)</u>	<u>214,141</u>
Other comprehensive income for the period		<u>(1,877,569)</u>	<u>465,252</u>	<u>(1,278,713)</u>	<u>214,141</u>
Total comprehensive income for the period		<u>(84,287)</u>	<u>7,084,569</u>	<u>3,389,863</u>	<u>12,735,903</u>

	<i>Notes</i>	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2016	2015	2016	2015
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Profit for the period attributable to:					
Owners of the Company		1,591,751	6,268,696	4,313,456	12,092,544
Non-controlling interests		201,531	350,621	355,120	429,218
		<u>1,793,282</u>	<u>6,619,317</u>	<u>4,668,576</u>	<u>12,521,762</u>
Total comprehensive income for the period attributable to:					
Owners of the Company		155,819	5,897,586	3,332,780	11,465,673
Non-controlling interests		(240,106)	1,186,983	57,083	1,270,230
		<u>(84,287)</u>	<u>7,084,569</u>	<u>3,389,863</u>	<u>12,735,903</u>
		<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Earnings per share	9				
– Basic and diluted		<u>0.042</u>	<u>0.173</u>	<u>0.115</u>	<u>0.344</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Unaudited 30 June 2016 HK\$	Audited 31 December 2015 HK\$
	Notes		
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	10	27,031,559	33,305,565
Intangible assets		420,000	420,000
Prepayment for acquisition of property, plant and equipment		4,553,631	3,124,662
		<u>32,005,190</u>	<u>36,850,227</u>
Current assets			
Inventories	11	6,110,015	9,946,511
Trade and other receivables	12	182,934,108	36,942,766
Amount due from a joint venture	13	221,956,582	202,837,077
Amount due from a related company		–	97,047,619
Amount due from non-controlling interests		947,059	500,000
Tax recoverable		629,295	118,597
Pledged bank deposit		702,788	3,677,778
Cash and cash equivalents		7,020,113	16,510,763
		<u>420,299,960</u>	<u>367,581,111</u>
Current liabilities			
Trade and other payables	14	109,439,821	52,916,878
Borrowings		18,505,031	30,361,932
		<u>127,944,852</u>	<u>83,278,810</u>
Net current assets		<u>292,355,108</u>	<u>284,302,301</u>
Total assets less current liabilities		<u>324,360,298</u>	<u>321,152,528</u>
Non-current liabilities			
Deferred tax liabilities		4,707	4,707
		<u>4,707</u>	<u>4,707</u>
Net assets		<u><u>324,355,591</u></u>	<u><u>321,147,821</u></u>
EQUITY			
Share capital		75,258,500	75,283,900
Reserves		223,583,237	220,407,150
Equity attributable to the owners of the Company		298,841,737	295,691,050
Non-controlling interests		25,513,854	25,456,771
Total equity		<u><u>324,355,591</u></u>	<u><u>321,147,821</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited									
	Share capital	Contributed surplus*	Share option reserve*	Other reserves*	Translation reserve*	Available-for-sale financial assets revaluation reserve*	Accumulated losses*	Total reserves	Non-controlling interests	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
At 1 January 2015	68,049,500	298,913,080	1,360,008	7	16,809,819	(11,739,442)	(161,087,228)	144,256,244	3,793,244	216,098,988
Issue of shares upon shares subscription	7,692,000	85,112,200	–	–	–	–	–	85,112,200	–	92,804,200
Transactions with owners	7,692,000	85,112,200	–	–	–	–	–	85,112,200	–	92,804,200
Profit for the period	–	–	–	–	–	–	12,092,544	12,092,544	429,218	12,521,762
Other comprehensive income										
– Translation of foreign operations	–	–	–	–	(626,871)	–	–	(626,871)	841,012	214,141
Total comprehensive income for the period	–	–	–	–	(626,871)	–	12,092,544	11,465,673	1,270,230	12,735,903
Acquisition of non-controlling interests	–	–	–	–	–	–	–	–	13,226,138	13,226,138
At 30 June 2015	75,741,500	384,025,280	1,360,008	7	16,182,948	(11,739,442)	(148,994,684)	240,834,117	18,289,612	334,865,229
At 1 January 2016	75,283,900	377,510,078	1,360,008	7	8,834,474	(11,739,442)	(155,557,975)	220,407,150	25,456,771	321,147,821
Repurchase of shares	(25,400)	(156,693)	–	–	–	–	–	(156,693)	–	(182,093)
Transactions with owners	(25,400)	(156,693)	–	–	–	–	–	(156,693)	–	(182,093)
Profit for the period	–	–	–	–	–	–	4,313,456	4,313,456	355,120	4,668,576
Other comprehensive income										
– Translation of foreign operations	–	–	–	–	(980,676)	–	–	(980,676)	(298,037)	(1,278,713)
Total comprehensive income for the period	–	–	–	–	(980,676)	–	4,313,456	3,332,780	57,083	3,389,863
At 30 June 2016	75,258,500	377,353,385	1,360,008	7	7,853,798	(11,739,442)	(151,244,519)	223,583,237	25,513,854	324,355,591

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited	
	Six months ended 30 June	
	2016	2015
	HK\$	HK\$
Net cash used in operating activities	(91,472,333)	(66,597,804)
Net cash generated from/(used in) investing activities	94,057,235	(4,927,486)
Net cash (used in)/generated from financing activities	(12,003,856)	91,696,083
Net (decrease)/increase in cash and cash equivalents	(9,418,954)	20,170,793
Cash and cash equivalents brought forward	16,510,763	19,475,200
Effect of foreign exchange rate changes	(71,696)	10,378
Cash and cash equivalents carried forward	7,020,113	39,656,371

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

This unaudited condensed consolidated financial information for the six months ended 30 June 2016 has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) which collectively includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“HKAS”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The unaudited condensed consolidated financial information also include the applicable disclosure requirements of the GEM Listing Rules. The unaudited condensed consolidated financial information should be read in conjunction with the audited annual financial statements of the Group for the year ended 31 December 2015.

Except as for the adoption of new and revised HKFRSs issued by the HKICPA, which are effective for the Group’s financial year beginning 1 January 2016, the accounting policies applied are consistent with those of the audited annual financial statements of the Group for the year ended 31 December 2015, as described in those audited annual financial statements. The Directors anticipate that the application of these new and revised HKFRSs will not have material impact on the unaudited condensed consolidated financial information of the Group.

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

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

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

In preparing these unaudited condensed consolidated financial information, the significant judgments made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the audited annual consolidated financial statements of the Group for the year ended 31 December 2015.

2. SEGMENT INFORMATION AND REVENUE

The operating segments are reported in a manner consistent with the way in which information is reported internally to the executive Directors for the purposes of resources allocation and assessment of segment performance. The 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. The segment information for the six months ended 30 June 2016 has been reclassified to align with the presentation of the latest segment information disclosure. The Group is currently organized into the following five operating segments:

- (i) Sales of smart cards*;
- (ii) Sales of smart cards application systems;
- (iii) Financial and management consultancy services;
- (iv) Trading of scrap metals; and
- (v) Sales of petro-chemical products

* Renamed from “Sales of smart cards and plastic cards” to “Sales of smart cards”.

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, 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, amount due from non-controlling interests, 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 pledged bank deposits and cash and cash equivalents.

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.

Six months ended 30 June 2016

	Unaudited						
	Sales of smart cards HK\$	Sales of smart card application systems HK\$	Financial and management consultancy services HK\$	Trading of scrap metals HK\$	Sales of petro-chemical products HK\$	Corporate/ Unallocated HK\$	Consolidated HK\$
Reportable segment revenue	<u>46,031,852</u>	<u>15,500</u>	<u>2,941,130</u>	<u>–</u>	<u>1,352,948,370</u>	<u>–</u>	<u>1,401,936,852</u>
Reportable segment (loss)/profit	<u>(9,670,876)</u>	<u>(5,738)</u>	<u>20,806,489</u>	<u>(1,486,592)</u>	<u>1,881,637</u>	<u>(36,263)</u>	<u>11,488,657</u>
Finance costs							(436,149)
Exchange loss, net							(1,580,033)
Corporate expenses, net							<u>(4,318,307)</u>
Profit before income tax							<u>5,154,168</u>

Six months ended 30 June 2015

	Unaudited						
	Sales of smart cards HK\$	Sales of smart card application systems HK\$	Financial and management consultancy services HK\$	Trading of scrap metals HK\$	Sales of petro-chemical products HK\$	Corporate/ Unallocated HK\$	Consolidated HK\$
Reportable segment revenue	<u>83,512,295</u>	<u>14,900</u>	<u>2,929,245</u>	<u>–</u>	<u>828,917,412</u>	<u>–</u>	<u>915,373,852</u>
Reportable segment (loss)/profit	<u>(5,786,448)</u>	<u>(17,264)</u>	<u>24,358,691</u>	<u>(1,670,686)</u>	<u>2,289,960</u>	<u>(13,040)</u>	<u>19,161,213</u>
Finance costs							(1,004,727)
Exchange loss, net							(764,529)
Corporate expenses, net							<u>(3,239,155)</u>
Profit before income tax							<u>14,152,802</u>

30 June 2016

	Unaudited						
	Sales of smart cards <i>HK\$</i>	Sales of smart card application systems <i>HK\$</i>	Financial and management consultancy services <i>HK\$</i>	Trading of scrap metals <i>HK\$</i>	Sales of petro-chemical products <i>HK\$</i>	Corporate/ Unallocated <i>HK\$</i>	Consolidated <i>HK\$</i>
Reportable segment assets	67,443,903	5,600	221,956,582	3,611,480	148,447,309	1,121,021	442,585,895
Intangible assets							420,000
Amount due from non-controlling interests							947,059
Tax recoverable							629,295
Pledged bank deposits							702,788
Cash and cash equivalents							7,020,113
Total consolidated assets							452,305,150
Reportable segment liabilities	53,921,196	23,300	–	790,747	52,224,918	2,479,660	109,439,821
Borrowings							18,505,031
Deferred tax liabilities							4,707
Total consolidated liabilities							127,949,559

31 December 2015

	Audited						
	Sales of smart cards HK\$	Sales of smart card application systems HK\$	Financial and management consultancy services HK\$	Trading of scrap metals HK\$	Sales of petro-chemical products HK\$	Corporate/ Unallocated HK\$	Consolidated HK\$
Reportable segment assets	<u>76,931,568</u>	<u>4,125</u>	<u>202,837,077</u>	<u>3,716,096</u>	<u>97,083,316</u>	<u>2,632,018</u>	383,204,200
Intangible assets							420,000
Amount due from non-controlling interests							500,000
Tax recoverable							118,597
Pledged bank deposits							3,677,778
Cash and cash equivalents							<u>16,510,763</u>
Total consolidated assets							<u>404,431,338</u>
Reportable segment liabilities	<u>49,930,032</u>	<u>15,400</u>	<u>–</u>	<u>575,805</u>	<u>389,751</u>	<u>2,005,890</u>	52,916,878
Borrowings							30,361,932
Deferred tax liabilities							<u>4,707</u>
Total consolidated liabilities							<u>83,283,517</u>

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

3. OTHER INCOME

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2016 HK\$	2015 HK\$	2016 HK\$	2015 HK\$
Interest income (note (a))	<u>8,989,594</u>	11,012,042	<u>18,007,269</u>	21,849,880
Sundry income	<u>629</u>	–	<u>28,026</u>	462
	<u>8,990,223</u>	<u>11,012,042</u>	<u>18,035,295</u>	<u>21,850,342</u>

Notes:

- (a) Interest income comprises interest income arising from amount due from a joint venture (Note 13) and bank deposits in aggregate which are financial assets not at fair value through profit or loss.

4. OTHER (LOSSES)/GAINS, NET

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2016	2015	2016	2015
	HK\$	HK\$	HK\$	HK\$
Loss on disposal of property, plant and equipment	–	(6,250)	–	(6,250)
Exchange (losses)/gains, net	(2,407,361)	1,379,223	(1,580,033)	(764,529)
	<u>(2,407,361)</u>	<u>1,372,973</u>	<u>(1,580,033)</u>	<u>(770,779)</u>

5. FINANCE COSTS

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2016	2015	2016	2015
	HK\$	HK\$	HK\$	HK\$
Interest on bank loans wholly repayable within five years	157,049	287,911	342,162	509,407
Interest charges on other borrowings	48,012	183,038	93,987	495,320
	<u>205,061</u>	<u>470,949</u>	<u>436,149</u>	<u>1,004,727</u>

6. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2016	2015	2016	2015
	HK\$	HK\$	HK\$	HK\$
Cost of inventories recognised as expenses	711,405,343	617,133,981	1,391,028,747	900,742,165
Depreciation	<u>3,800,723</u>	<u>4,244,121</u>	<u>7,651,724</u>	<u>8,421,111</u>

7. INCOME TAX EXPENSE

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2016	2015	2016	2015
	HK\$	HK\$	HK\$	HK\$
Current tax				
– Hong Kong Profits Tax				
Current year	(34,000)	659,000	24,000	1,058,000
– PRC Enterprise Income Tax (“EIT”)				
Current year	278,887	468,244	461,592	573,040
Total income tax expense	<u>244,887</u>	<u>1,127,244</u>	<u>485,592</u>	<u>1,631,040</u>

Hong Kong Profits Tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits for the period. Taxation for subsidiaries established and operated in the PRC is calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the PRC.

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% (2015: 25%).

8. DIVIDEND

The board does not recommend any payment of an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: HK\$nil).

9. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the three months and the six months ended 30 June 2016 is based on the unaudited profit of HK\$1,591,751 and HK\$4,313,456 respectively (three months and six months ended 30 June 2015: HK\$6,268,696 and HK\$12,092,544 respectively) and the weighted average of 3,762,929,615 and 3,763,562,308 ordinary shares in issue during the periods (three months and six months ended 30 June 2015: 3,630,699,176 and 3,517,217,541 ordinary shares respectively).

(b) Diluted earnings per share

No adjustment has been made to basic earnings per share as the outstanding share options had anti-dilutive effect on the basic earnings per share for the three months ended and six months ended 30 June 2016.

The calculation of diluted earnings per share for the three months and the six months ended 30 June 2015 is based on the unaudited profit of HK\$6,268,696 and HK\$12,092,544 respectively and the weighted average of 3,633,115,843 and 3,519,311,291 ordinary shares, calculated as follows:

	Three months ended 30 June 2015	Six months ended 30 June 2015
Weighted average number of ordinary shares used in the calculation of basic earnings per share	3,630,699,176	3,517,217,541
Effect of deemed issue of shares under the Company’s share option scheme	<u>2,416,667</u>	<u>2,093,750</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>3,633,115,843</u>	<u>3,519,311,291</u>

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2016, the Group acquired fixed assets of HK\$1,610,210 (six months ended 2015: HK\$2,881,057).

11. INVENTORIES

	Unaudited 30 June 2016 HK\$	Audited 31 December 2015 HK\$
Raw materials	3,349,563	7,603,086
Work-in-progress	731,307	1,666,048
Finished goods	2,029,145	677,377
	<u>6,110,015</u>	<u>9,946,511</u>

12. TRADE AND OTHER RECEIVABLES

	Unaudited 30 June 2016 HK\$	Audited 31 December 2015 HK\$
Trade receivables, net (<i>note</i>)	167,737,903	25,011,495
Other receivables, deposits and prepayments	15,196,205	11,931,271
	<u>182,934,108</u>	<u>36,942,766</u>

Note:

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

	Unaudited 30 June 2016 HK\$	Audited 31 December 2015 HK\$
0 – 30 days	60,947,179	7,357,060
31 – 90 days	43,763,734	13,899,032
Over 90 days	63,026,990	3,755,403
	<u>167,737,903</u>	<u>25,011,495</u>

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

	Unaudited 30 June 2016 HK\$	Audited 31 December 2015 HK\$
Neither past due nor impaired	68,888,287	15,737,780
1 – 30 days past due	1,879,233	5,543,866
31 – 90 days past due	34,179,073	1,658,918
Over 90 days past due	62,791,310	2,070,931
	167,737,903	25,011,495

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.

As at 30 June 2016, trading balance of HK\$83,816,463 (31 December 2015: HK\$nil) due from 上海建州石化有限公司 (“Shanghai Jianzhou”) has been included in the trade receivables. Shanghai Jianzhou is regarded as a related party since an ex-director of a major subsidiary of Group, Mr. Zhang Zixiang who resigned on 15 March 2016, is the beneficial shareholder of Shanghai Jianzhou. The said balance are repayable on similar credit terms to those offered to the major customers of the Group.

13. AMOUNT DUE FROM A JOINT VENTURE

The unaudited balances as at 30 June 2016 was HK\$221,956,582 (31 December 2015: HK\$202,837,077), comprise loans (after impairment) to Hota (USA) Holdings Corp. (“Hota (USA)”) and to Hota Auto Recycling Corporation (a wholly owned subsidiary of Hota (USA)), which are unsecured, interest bearing at 10% (2015: 10%) and 19% (2015: 24%) per annum respectively and repayable on demand (collectively the “Loans”). The Group did not hold any collateral over the Loans.

14. TRADE AND OTHER PAYABLES

	Unaudited 30 June 2016 HK\$	Audited 31 December 2015 HK\$
Trade payables (<i>note</i>)	87,043,140	37,956,807
Other payables and accrual	22,396,681	14,960,071
	109,439,821	52,916,878

Note:

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

	Unaudited 30 June 2016 HK\$	Audited 31 December 2015 HK\$
0 – 30 days	12,512,526	3,334,000
31 – 60 days	1,320,276	4,283,839
61 – 90 days	45,335,669	2,091,878
Over 90 days	27,874,669	28,247,090
	87,043,140	37,956,807

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.

15. CAPITAL COMMITMENT

	Unaudited 30 June 2016 HK\$	Audited 31 December 2015 HK\$
Contracted but not provided for:		
– purchase of property, plant and equipment	3,844,535	8,299,110

16. RELATED PARTY TRANSACTIONS

In addition to those disclosed elsewhere in the financial statements, the following transactions were carried out by the Group with the related parties:

Transaction with related parties

Related party relationship	Notes	Unaudited Three months ended 30 June 2016 HK\$	2015 HK\$	Unaudited Six months ended 30 June 2016 HK\$	2015 HK\$
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Joint Venture

Interest income on amount due from a joint venture	1	8,981,042	11,002,429	17,992,336	21,834,896
Fees earned from providing financial and management consultancy service	1	1,464,657	1,472,714	2,941,130	2,929,245

上海建州石化有限公司

(“Shanghai Jianzhou”)

Sales of petro-chemical products	2	31,918,211	–	76,613,487	–
Purchase of petro-chemical products	2	141,256	–	858,533	–

Notes:

- Particulars of the Group's balance with the joint venture as a result of above transaction is disclosed in note 13.
- Mr. Zhang Zixiang, an ex-director of a major subsidiary of the Group and who resigned on 15 March 2016, is the beneficial shareholder of Shanghai Jianzhou. As at 30 June 2016, the trading balance, repayable on similar credit terms to those offered to/by the major customers/suppliers of the Group, of HK\$83,816,463 (31 December 2015: HK\$nil) and HK\$nil (31 December 2015: HK\$nil) was included in the trade receivable (Note 12) and trade payable (Note 14) respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Operation and Financial Review

Revenue

During the period under review, the Group's financial results was principally derived from the sales of petro-chemical products, the contract manufacturing and sales of smart cards and the provision of management and financial consultancy services.

During the period under review, revenue generated from the sales of petro-chemical products conducted by Shanghai Phoenitron and its subsidiary amounted to HK\$1,352.9 million, representing an increase of about HK\$524.0 million, or 63.2%, as compared to the corresponding period in 2015 of HK\$828.9 million. The increase was primarily due to the fact that Shanghai Phoenitron was still in its early stage of business development in 2015Q1. Shanghai Renzhong, a wholly-owned subsidiary of Shanghai Phoenitron, had successfully obtained the retail license for selling oil products by late 2015 and was able to conduct initial retail transactions in 2016Q1. This move marked an important step as retail sales of oil products will better diversify product sales and may enjoy a higher profit margin than wholesale. We therefore expect 2016 segment sales to be a mixture of wholesale and retail sales, with an overall higher profit margin level than in 2015.

The contract manufacturing and sales of smart cards composed mainly of two parts, namely, the SIM cards manufacturing business and the module packaging and testing services business. During the period under review, the Group's revenue generated from the SIM cards manufacturing business amounted to HK\$29.9 million, down by HK\$15.6 million or 34.3% as compared to the corresponding period in 2015 of HK\$45.5 million. This revenue composed primarily the revenue generated from the overseas market and the drop in revenue was mainly due to the closure of the BJ SIM card plant in early 2016 which was loss-making. Excluding the impact of discontinued operations, the SIM cards manufacturing business revenue was down 6.3% YOY.

As disclosed in the 2015 annual report and 2016 first quarterly report of the Company, the management is in the process of consolidating the resources of SIM cards manufacturing business segment by (i) closing down the loss-making BJ SIM card plant and (ii) relocating the machineries to Shenzhen to better serve the more promising global SIM card market, and because the existing plant in Shenzhen has been running at full capacity and is no longer able to meet the expected increasing orders from the overseas customers. Management is therefore relocating the existing Shenzhen plant to a larger plant in the periphery area of Shenzhen city, and consolidating the Beijing plant capacity there as well for centralized management. The new, bigger plant is currently under renovation and thereafter should undergo certain certification processes by our current and potential customers. The management expects that the whole relocating process will be completed in the third quarter and during this transitional period, the closing down of the loss-making BJ SIM card plant will inevitably lead to a significant drop in the segment revenue year-on-year basis.

Revenue generated from the module packaging and testing services business amounted to HK\$16.1 million, down by HK\$21.9 million or 57.5% as compared to the corresponding period in 2015 of HK\$38.0 million. As disclosed in the annual report 2015 of the Company, the PRC module packaging and testing service business is suffering from prolonged weak demand from the leading telecommunication market customers which led to low utilization rates in the Beijing plant since 2015Q2. As further disclosed in the first quarterly report 2016, to cope with this adverse situation, we have expanded our customer base to serve more international customers since mid of last year, and having undergone the necessary qualification process with certain new customers, whose

corresponding orders have started since early 2016. However, the revenue generated from these overseas new orders cannot sufficiently compensate for the loss of orders from the PRC market. Management is currently evaluating the future prospect of this business and shall take necessary actions to safeguard the shareholders' value as and when appropriate.

Revenue generated from the provision of management and financial consultancy services amounted to HK\$2.9 million during the period under review (six months ended 30 June 2015: HK\$2.9 million).

Cost of Sales and Gross Profit

During the period under review, cost of sales increased by HK\$490.3 million, or 54.4%, from HK\$900.7 million for the corresponding period of 2015, to HK\$1,391.0 million. The increase in cost of sales was largely attributable to the increase in cost of sales of HK\$523.3 million in relation to increased sales of petro-chemical products but partly offset by the drop in cost of sales of HK\$33.0 million in relation to the drop in sales of smartcard business.

As a result, gross profit dropped by HK\$3.7 million or 25.4%, from the corresponding period in last year of HK\$14.6 million, to HK\$10.9 million.

Other Income

Other revenue of HK\$18.0 million (six months ended 30 June 2015: HK\$21.9 million) was mainly comprised of interest income arising from the amount due from a joint venture. As the interest rate charged to a joint venture in the PRC is four times the prevailing bank lending rate in the PRC, interest income dropped since the bank lending rate was dropped on year-on-year basis.

Other Losses, net

During the period under review, other losses amounted to HK\$1.6 million (six months ended 30 June 2015: HK\$0.8 million) which was represented primarily by the exchange losses arising from foreign currency-based transactions.

Selling and Distribution Costs

Selling and distribution costs increased by 11.6% over the corresponding period in 2015 to HK\$4.3 million (six months ended 30 June 2015: HK\$3.8 million), and was mainly attributable to the increase in the transportation costs in relation to the increased sales of petro-chemical products of about HK\$0.7 million but partly offset by the drop in various selling expenses due to the closing down of the BJ SIM card plant.

Administrative Expenses

Administrative expenses recorded an increase of HK\$0.8 million or 4.6% over the corresponding period in 2015 to HK\$17.5 million (six months ended 30 June 2015: HK\$16.7 million). The increase was primarily attributable to the combined effects of (i) an increase in professional fees, (ii) the incurrence of various costs in relation to our sales of petro-chemical products segment; (iii) the increase of miscellaneous expenses in relation to the overseas SIM card segment; and (iv) partly offset by the drop in various administrative expenses due to the closing down of the BJ SIM card plant.

Finance Costs

During the period under review, the Group's finance costs amounted to HK\$0.4 million (six months ended 30 June 2015: HK\$1.0 million), the drop was due largely to the drop in average borrowings during the period under review.

Income Tax Expense

During the period under review, the income tax expense of the Group amounted to HK\$0.5 million (six months ended 30 June 2015: HK\$1.6 million).

As a result of the foregoing, profit for the six months ended 30 June 2016 amounted to HK\$4.7 million, representing an decrease of about HK\$7.8 million as compared to about HK\$12.5 million for the corresponding period in 2015.

LIQUIDITY AND FINANCIAL RESOURCES

During the period under review, the Group financed its business operations and investments with cash revenue generated from operating activities, bank loans and other borrowings. As at 30 June 2016, the Group had cash and bank balances of HK\$7.7 million (31 December 2015: HK\$20.2 million) and secured bank loans and other borrowings of HK\$18.5 million (31 December 2015: HK\$30.4 million).

As at 30 June 2016, the Group had current assets of HK\$420.3 million (31 December 2015: HK\$367.6 million) and current liabilities of HK\$127.9 million (31 December 2015: HK\$83.3 million). The current ratio, expressed as current assets over current liabilities, was maintained at a level of 3.3 (31 December 2015: 4.4).

EMPLOYEE INFORMATION

As at 30 June 2016, the Group employed a total of 304 employees, of which 15 were located in Hong Kong and the rest were located in the PRC. Employee cost, including Directors' remuneration, was HK\$17.3 million (six months ended 30 June 2015: HK\$23.1 million) for the period under review. The Group remunerates its employees based on their performance, experience and the prevailing industry practice. In addition to basic salaries and participation in mandatory provident fund scheme, staff benefits include medical scheme and share options.

SIGNIFICANT INVESTMENTS

Save as disclosed under section headed "Operation and Financial Review" and "Notes to the Unaudited Interim Financial Statements" above, there were no other significant investments for the period ended 30 June 2016.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group made no material acquisitions or disposals of subsidiaries and affiliated companies during the six months ended 30 June 2016.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed under section headed “Operation and Financial Review” and “Notes to the Unaudited Interim Financial Statements” above, there were no future plans for material investments or capital assets as at 30 June 2016.

CHARGE ON GROUP ASSETS

At 30 June 2016, certain machinery and equipment with the carrying amount of HK\$7.9 million (31 December 2015: HK\$10.2 million) and bank deposits of HK\$0.7 million (31 December 2015: HK\$3.7 million) were pledged by the Company’s subsidiaries as collaterals to secure general banking facilities granted to the Group. In additions, the Company’s subsidiary has assigned the trade receivables of certain customers to secure borrowings amounting to HK\$3.5 million (31 December 2015: HK\$3.6 million) granted to the Group.

GEARING RATIO

The gearing ratio of the Group, expressed as a percentage of total borrowings to total assets of the Group, was 4.1% as at 30 June 2016 (31 December 2015: 7.5%).

CONTINGENT LIABILITIES

As at 30 June 2016, the Group did not have any significant contingent liabilities.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

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

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

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

As at 30 June 2016, the interests or short position of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein, or which were required, pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Nature of interest	Long/short Position	Number of shares of the Company	Number of underlying shares of the Company	Approximate percentage of interest in the Company's issued share capital
Lily Wu (<i>Note 1</i>)	Beneficial owner	Long	1,000,000	5,000,000	0.16
Chang Wei Wen	Beneficial owner	Long	5,250,000	–	0.14
Wang Jia Hua	Beneficial owner	Long	5,000,000	–	0.13
Yang Meng Hsiu	Beneficial owner	Long	43,000,000	–	1.14

Note:

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

Save as disclosed above, as at 30 June 2016, none of the Directors and chief executives or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein, or which were required, pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2016, the following persons/companies had interest or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying voting rights to vote in all circumstances at general meetings of the Company or any other member of the Group:

Name of shareholders	Type of interests	Long/short position	Number of shares of the Company	Approximate percentage of interests
Golden Dice Co., Ltd. (<i>Note 1</i>)	Beneficial	Long	519,275,125	13.80
Best Heaven Limited (<i>Note 1</i>)	Beneficial	Long	315,865,000	8.39
Mr. Tsai Chi Yuan (<i>Note 1</i>)	Interests in controlled company	Long	835,140,125	22.19

Note:

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

Save as disclosed above, as at 30 June 2016, the Directors are not aware of any other persons or corporation (other than the Directors and chief executive of the Company) having an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital rights to vote in all circumstances at general meetings of the Company or any other member of the Group.

SHARE OPTION

Pursuant to the resolution passed by the shareholders of the Company at the extraordinary general meeting of the Company dated 8 January 2008, a new share option scheme (the “New Share Option Scheme”) was approved and adopted. The share options are fully vested at the date of grant. Movements of the share options under the New Share Option Scheme during the period were as follows:

Name of participant	At 1 January 2016	Granted/ Exercised/ Cancelled/ Lapsed during the period	At 30 June 2016	Date of grant	Exercisable period	Exercise price <i>HK\$</i>
Executive Director						
Lily Wu	5,000,000	–	5,000,000	17 November 2008	17 November 2008 to 16 November 2018	0.186

As at 30 June 2016, the remaining life of the New Share Option Scheme was about 2.45 years.

AUDIT COMMITTEE

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

The Group’s unaudited results for the three months and the six months ended 30 June 2016 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 six months ended 30 June 2016, the Group complied with the code provisions in the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 15 of the GEM Listing Rules, except for the code provision A2.1 stipulated in the following paragraphs.

The Code provision A2.1 stipulates that the roles of Chairman and Chief Executive Officer (“CEO”) should be 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 this structure will not impair the balance of power and authority between the Board and the management of the Company.

DIRECTORS’ SECURITIES TRANSACTIONS

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

Having made specific enquiry by the Company, all Directors have confirmed that they have complied with the required standard set out in such code of conduct throughout the six months ended 30 June 2016.

COMPETING INTERESTS

As at 30 June 2016, none of the Directors or the management shareholders or any of their respective associates (as defined under the GEM Listing Rules) of the Company had any interest in a business that competed or might compete with the business of the Group directly or indirectly.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2016, the Company repurchased and cancelled a total of 1,270,000 of its own shares on the Stock Exchange at an aggregate consideration (before expenses) of HK\$180,035.

Particulars of the repurchases are as follows:

Date of repurchase	No. of Shares	Price per share		Aggregate Price HK\$
		Highest HK\$	Lowest HK\$	
April	1,270,000	0.155	0.139	180,035
Total	1,270,000			180,035

Save as aforesaid, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities during the six months ended 30 June 2016.

CHANGE IN DIRECTORS

Name of Director	Details of change
Mr. Wang Jia Hua	Appointed as an executive Director with effect from 5 January 2016. For more details, please refer to the Company's announcement published on 5 January 2016.

For and on behalf of the Board

Lily Wu
Chairman

Hong Kong, 10 August 2016

As at the date of this announcement, the Board comprises four executive Directors, Ms. Lily Wu (Chairman and Chief Executive Officer), Mr. Wang Jia Hua, 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.