



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 2017**

**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\$263,721,000 for the six months ended 30 June 2017, representing a decrease of 81.2% as compared with that of the corresponding period in 2016.
- The unaudited loss attributable to the owners of the Company for the six months ended 30 June 2017 was HK\$5,707,000.
- The Board does not recommend any payment of an interim dividend for the six months ended 30 June 2017.

UNAUDITED INTERIM RESULTS

The board of Directors (the “Board”) 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 2017 together with the comparative figures for the corresponding periods in 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2017	2016	2017	2016
	Notes	HK\$	HK\$	HK\$	HK\$
Revenue	2	66,986,018	718,211,956	263,720,554	1,401,936,852
Cost of sales		<u>(61,927,514)</u>	<u>(711,405,343)</u>	<u>(254,091,183)</u>	<u>(1,391,028,747)</u>
Gross profit		5,058,504	6,806,613	9,629,371	10,908,105
Other income	3	49,309	8,990,223	101,104	18,035,295
Other (losses)/gains, net	4	(341,595)	(2,407,361)	(274,689)	(1,580,033)
Selling and distribution costs		(1,164,816)	(2,144,622)	(2,113,439)	(4,279,187)
Administrative expenses		(6,442,875)	(9,001,623)	(12,190,113)	(17,493,863)
Finance costs	5	(411,906)	(205,061)	(473,748)	(436,149)
(Loss)/Profit before income tax	6	(3,253,379)	2,038,169	(5,321,514)	5,154,168
Income tax expense	7	26,226	(244,887)	(348,639)	(485,592)
(Loss)/Profit for the period		<u>(3,227,153)</u>	<u>1,793,282</u>	<u>(5,670,153)</u>	<u>4,668,576</u>
Other comprehensive income					
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Exchange gain/(loss) on translation of financial statements of foreign operations		<u>1,705,876</u>	<u>(1,877,569)</u>	<u>2,913,393</u>	<u>(1,278,713)</u>
Other comprehensive income for the period		<u>1,705,876</u>	<u>(1,877,569)</u>	<u>2,913,393</u>	<u>(1,278,713)</u>
Total comprehensive income for the period		<u>(1,521,277)</u>	<u>(84,287)</u>	<u>(2,756,760)</u>	<u>3,389,863</u>

	<i>Notes</i>	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2017	2016	2017	2016
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
(Loss)/Profit for the period attributable to:					
Owners of the Company		(3,273,812)	1,591,751	(5,706,684)	4,313,456
Non-controlling interests		46,659	201,531	36,531	355,120
		<u>(3,227,153)</u>	<u>1,793,282</u>	<u>(5,670,153)</u>	<u>4,668,576</u>
Total comprehensive income for the period attributable to:					
Owners of the Company		(1,880,992)	155,819	(3,375,251)	3,332,780
Non-controlling interests		359,715	(240,106)	618,491	57,083
		<u>(1,521,277)</u>	<u>(84,287)</u>	<u>(2,756,760)</u>	<u>3,389,863</u>
		<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
(Loss)/Earnings per share	9				
– Basic and diluted		<u>(0.823)*</u>	<u>0.423*</u>	<u>(1.474)*</u>	<u>1.146*</u>

* Adjusted for share consolidation with effect from 19 January 2017.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Unaudited 30 June 2017 HK\$	Audited 31 December 2016 HK\$
	<i>Notes</i>		
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	10	9,134,974	8,408,272
Intangible assets		420,000	420,000
Prepayment for acquisition of property, plant and equipment		3,191,858	2,121,143
		<u>12,746,832</u>	<u>10,949,415</u>
Current assets			
Inventories	11	74,739,912	186,768
Trade and other receivables	12	61,526,987	123,654,580
Tax recoverable		936,735	1,188,401
Pledged bank deposit		797,081	9,295
Cash and cash equivalents		4,623,831	4,199,398
		<u>142,624,546</u>	<u>129,238,442</u>
Current liabilities			
Trade and other payables	13	42,039,398	37,121,793
Borrowings		10,500,032	12,452,356
		<u>52,539,430</u>	<u>49,574,149</u>
Net current assets		<u>90,085,116</u>	<u>79,664,293</u>
Total assets less current liabilities		<u>102,831,948</u>	<u>90,613,708</u>
Non-current liabilities			
Deferred tax liabilities		4,707	4,707
Net assets		<u>102,827,241</u>	<u>90,609,001</u>
EQUITY			
Share capital	14	90,258,500	75,258,500
Reserves		(12,096,123)	(8,695,872)
Equity attributable to the owners of the Company		78,162,377	66,562,628
Non-controlling interests		24,664,864	24,046,373
Total equity		<u>102,827,241</u>	<u>90,609,001</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited										
	Share capital HK\$	Share premium* HK\$	Contributed surplus* HK\$	Share option reserve* HK\$	Other reserves* HK\$	Translation reserve* HK\$	Available- for-sale financial assets revaluation reserve* HK\$	Accumulated losses* HK\$	Total reserves HK\$	Non- controlling interests HK\$	Total HK\$
At 1 January 2016	75,283,900	363,524,409	13,985,669	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	<u>(25,400)</u>	<u>(156,693)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(156,693)</u>	<u>—</u>	<u>(182,093)</u>
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	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(980,676)</u>	<u>—</u>	<u>4,313,456</u>	<u>3,332,780</u>	<u>57,083</u>	<u>3,389,863</u>
At 30 June 2016	<u>75,258,500</u>	<u>363,367,716</u>	<u>13,985,669</u>	<u>1,360,008</u>	<u>7</u>	<u>7,853,798</u>	<u>(11,739,442)</u>	<u>(151,244,519)</u>	<u>223,583,237</u>	<u>25,513,854</u>	<u>324,355,591</u>
At 1 January 2017	75,258,500	363,367,716	13,985,669	1,360,008	7	2,150,237	—	(389,559,509)	(8,695,872)	24,046,373	90,609,001
Issue of shares upon share subscription	15,000,000	—	—	—	—	—	—	—	—	—	15,000,000
Share issue expenses	—	(25,000)	—	—	—	—	—	—	(25,000)	—	(25,000)
Transactions with owners	<u>15,000,000</u>	<u>(25,000)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(25,000)</u>	<u>—</u>	<u>14,975,000</u>
(Loss)/Profit for the period	—	—	—	—	—	—	—	(5,706,684)	(5,706,684)	36,531	(5,670,153)
Other comprehensive income											
– Translation of foreign operations	—	—	—	—	—	2,331,433	—	—	2,331,433	581,960	2,913,393
Total comprehensive income for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,331,433</u>	<u>—</u>	<u>(5,706,684)</u>	<u>(3,375,251)</u>	<u>618,491</u>	<u>(2,756,760)</u>
At 30 June 2017	<u>90,258,500</u>	<u>363,342,716</u>	<u>13,985,669</u>	<u>1,360,008</u>	<u>7</u>	<u>4,481,670</u>	<u>—</u>	<u>(395,266,193)</u>	<u>(12,096,123)</u>	<u>24,664,864</u>	<u>102,827,241</u>

* 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	
	2017	2016
	HK\$	HK\$
Net cash used in operating activities	(8,441,700)	(91,472,333)
Net cash (used in)/from investing activities	(4,227,153)	94,057,235
Net cash from/(used in) financing activities	<u>12,999,048</u>	<u>(12,003,856)</u>
Net increase/(decrease) in cash and cash equivalents	330,195	(9,418,954)
Cash and cash equivalents at beginning of the period	4,199,398	16,510,763
Effect of foreign exchange rate changes	<u>94,238</u>	<u>(71,696)</u>
Cash and cash equivalents at end of the period	<u><u>4,623,831</u></u>	<u><u>7,020,113</u></u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

This unaudited condensed consolidated financial information for the six months ended 30 June 2017 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 2016.

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 2017, the accounting policies applied are consistent with those of the audited annual financial statements of the Group for the year ended 31 December 2016, 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 2016.

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 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.

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 before income tax is the same as those used in preparing these financial statements under HKFRSs except that finance costs, exchange losses, net, 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, 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 pledged bank deposits and 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 borrowings.

Six months ended 30 June 2017

	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	24,717,457	28,150	–	–	238,974,947	–	263,720,554
Reportable segment (loss)/profit	(96,138)	(6,023)	(173,863)	(1,401,778)	155,799	(14,083)	(1,536,086)
Finance costs							(473,748)
Exchange losses, net							(499,439)
Corporate expenses, net							(2,812,241)
Loss before income tax							(5,321,514)

Six months ended 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 revenue	46,031,852	15,500	2,941,130	–	1,352,948,370	–	1,401,936,852
Reportable segment (loss)/profit	(9,670,876)	(5,738)	20,806,489	(1,486,592)	1,881,637	(36,263)	11,488,657
Finance costs							(436,149)
Exchange losses, net							(1,580,033)
Corporate expenses, net							(4,318,307)
Profit before income tax							5,154,168

30 June 2017

	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 assets	<u>45,056,034</u>	<u>5,000</u>	<u>–</u>	<u>2,616,380</u>	<u>96,911,310</u>	<u>4,005,007</u>	148,593,731
Intangible assets							420,000
Tax recoverable							936,735
Pledged bank deposits							797,081
Cash and cash equivalents							<u>4,623,831</u>
Total consolidated assets							<u>155,371,378</u>
Reportable segment liabilities	<u>35,592,090</u>	<u>12,640</u>	<u>–</u>	<u>188,709</u>	<u>3,274,911</u>	<u>2,971,048</u>	42,039,398
Borrowings							10,500,032
Deferred tax liabilities							<u>4,707</u>
Total consolidated liabilities							<u>52,544,137</u>

31 December 2016

	Audited						
	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	<u>36,042,545</u>	<u>5,600</u>	<u>–</u>	<u>2,501,586</u>	<u>93,690,741</u>	<u>2,130,291</u>	134,370,763
Intangible assets							420,000
Tax recoverable							1,188,401
Pledged bank deposits							9,295
Cash and cash equivalents							<u>4,199,398</u>
Total consolidated assets							<u>140,187,857</u>
Reportable segment liabilities	<u>31,310,431</u>	<u>19,300</u>	<u>–</u>	<u>1,175,409</u>	<u>2,278,810</u>	<u>2,337,843</u>	37,121,793
Borrowings							12,452,356
Deferred tax liabilities							<u>4,707</u>
Total consolidated liabilities							<u>49,578,856</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	
	2017 <i>HK\$</i>	2016 <i>HK\$</i>	2017 <i>HK\$</i>	2016 <i>HK\$</i>
Interest income from amount due from a joint venture	–	8,981,041	–	17,992,336
Bank interest income	686	8,553	1,221	14,933
Sundry income	<u>48,623</u>	<u>629</u>	<u>99,883</u>	<u>28,026</u>
	<u>49,309</u>	<u>8,990,223</u>	<u>101,104</u>	<u>18,035,295</u>

4. OTHER (LOSSES)/GAINS, NET

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2017	2016	2017	2016
	HK\$	HK\$	HK\$	HK\$
Gain on disposal of property, plant and equipment	–	–	224,750	–
Exchange losses, net	(341,595)	(2,407,361)	(499,439)	(1,580,033)
	<u>(341,595)</u>	<u>(2,407,361)</u>	<u>(274,689)</u>	<u>(1,580,033)</u>

5. FINANCE COSTS

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2017	2016	2017	2016
	HK\$	HK\$	HK\$	HK\$
Interest on bank loans wholly repayable within five years	41,984	157,049	71,604	342,162
Interest charges on other borrowings	369,922	48,012	402,144	93,987
	<u>411,906</u>	<u>205,061</u>	<u>473,748</u>	<u>436,149</u>

6. (LOSS)/PROFIT BEFORE INCOME TAX

(Loss)/Profit before income tax is arrived at after charging:

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2017	2016	2017	2016
	HK\$	HK\$	HK\$	HK\$
Cost of inventories recognised as expenses	61,927,514	711,405,343	254,091,183	1,391,028,747
Depreciation	<u>925,949</u>	<u>3,800,723</u>	<u>1,931,154</u>	<u>7,651,724</u>

7. INCOME TAX EXPENSE

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2017	2016	2017	2016
	HK\$	HK\$	HK\$	HK\$
Current tax				
– Hong Kong Profits Tax				
Current year	(29,000)	(34,000)	340,000	24,000
– PRC Enterprise Income Tax				
Current year	2,774	278,887	8,639	461,592
Total income tax expense	<u>(26,226)</u>	<u>244,887</u>	<u>348,639</u>	<u>485,592</u>

Hong Kong Profits Tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits for the period.

The income tax provision of the Group in respect of its operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the period based on the existing legislation, interpretations and practices in respect thereof. The applicable income tax rate is 25% for the three months and six months ended 30 June 2017 (three months and six months ended 30 June 2016: 25%).

8. DIVIDEND

The board does not recommend any payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: nil).

9. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

Basic (loss)/earnings per share for the three months and the six months ended 30 June 2017 is calculated by dividing the unaudited loss attributable to owners of the Company of HK\$3,273,812 and HK\$5,706,684 respectively (three months and six months ended 30 June 2016: profit of HK\$1,591,751 and HK\$4,313,456 respectively) by the weighted average number of ordinary shares of 397,721,071 and 387,065,981 shares respectively (three months and six months ended 30 June 2016: 376,292,962 and 376,356,231 shares respectively) in issue during the periods.

The share consolidation pursuant to the shareholders resolutions dated 18 January 2017 is adjusted in above weighted average number of ordinary shares in issue as if the share consolidation had occurred at 1 January 2016, the beginning of the earliest period reported. For more details, please refer to the Company's announcement, circular as well as the poll results of the EGM announcement which were published on 12 December 2016, 21 December 2016 and 18 January 2017, respectively.

(b) Diluted (loss)/earnings per share

No adjustment has been made to basic (loss)/earnings per share as the outstanding share options had anti-dilutive effect on the basic (loss)/earnings per share for the three months ended and six months ended 30 June 2017 and 2016.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2017, the Group acquired fixed assets of HK\$2,594,622 (six months ended 30 June 2016: HK\$1,610,210).

11. INVENTORIES

	Unaudited 30 June 2017 HK\$	Audited 31 December 2016 HK\$
Raw materials	2,303,405	120,230
Work-in-progress	1,692,184	—
Finished goods	70,744,323	66,538
	<u>74,739,912</u>	<u>186,768</u>

12. TRADE AND OTHER RECEIVABLES

	Unaudited 30 June 2017 HK\$	Audited 31 December 2016 HK\$
Trade receivables, net (<i>note</i>)	15,986,549	97,108,376
Other receivables, deposits and prepayments	45,540,438	26,546,204
	<u>61,526,987</u>	<u>123,654,580</u>

Note:

The credit term granted by the Group to its trade customers normally ranges from 30 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 2017 HK\$	Audited 31 December 2016 HK\$
0 – 30 days	6,183,970	5,755,567
31 – 90 days	7,525,699	10,178,476
Over 90 days	2,276,880	81,174,333
	<u>15,986,549</u>	<u>97,108,376</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 2017 HK\$	Audited 31 December 2016 HK\$
Neither past due nor impaired	13,219,218	13,598,078
1 – 30 days past due	811,523	2,524,366
31 – 90 days past due	393,164	642,454
Over 90 days past due	1,562,644	80,343,478
	<u>15,986,549</u>	<u>97,108,376</u>

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.

13. TRADE AND OTHER PAYABLES

	Unaudited 30 June 2017 HK\$	Audited 31 December 2016 HK\$
Trade payables (<i>note</i>)	26,996,689	22,407,191
Other payables and accrual	15,042,709	14,714,602
	<u>42,039,398</u>	<u>37,121,793</u>

Note:

Credit period granted by suppliers normally range from 30 to 90 days. Based on the invoice dates, the ageing analysis of the trade payables were as follows:

	Unaudited 30 June 2017 HK\$	Audited 31 December 2016 HK\$
0 – 30 days	3,064,760	2,721,614
31 – 60 days	2,634,183	3,675,517
61 – 90 days	3,800,353	870,818
Over 90 days	17,497,393	15,139,242
	<u>26,996,689</u>	<u>22,407,191</u>

14. SHARE CAPITAL

	Unaudited 30 June 2017 HK\$	Audited 31 December 2016 HK\$
Authorized:		
1,500,000,000 (<i>note a</i>) (31 December 2016: 5,000,000,000) ordinary shares of HK\$0.20 each (31 December 2016: HK\$0.02)	300,000,000	100,000,000
Issued and fully paid:		
451,292,500 (31 December 2016: 3,762,925,000) ordinary shares of HK\$0.20 each (31 December 2016: HK\$0.02)	90,258,500	75,258,500

A summary of the transactions involving the Company's issued share capital during the period is as follows:

	Par value per share HK\$	Number of shares	Nominal value HK\$
At 1 January 2017	0.02	3,762,925,000	75,258,500
Share consolidation (<i>note a</i>)	–	(3,386,632,500)	–
	0.20	376,292,500	75,258,500
Issue of shares upon shares subscription (<i>note b</i>)	0.20	75,000,000	15,000,000
At 30 June 2017	0.20	451,292,500	90,258,500

Notes

- a) Pursuant to a resolution passed in the extraordinary general meeting held on 18 January 2017, every ten shares of the Company's issued and unissued shares with par value of HK\$0.02 per share have been consolidated into one share with par value of HK\$0.20 per share with effect from 19 January 2017. The consolidated shares rank *pari passu* in all respects with each other. Other than the expenses to be incurred in relation to the share consolidation, the implementation of the share consolidation will not alter the underlying assets, business operations, management or financial position of the Company or result in any change in the relative rights of the shareholders, saved for any fractional consolidated shares to which shareholders may be entitled.

Upon the share consolidation become effective on 19 January 2017, the total authorised number of ordinary shares become HK\$100,000,000 divided into 500,000,000 consolidated shares of par value of HK\$0.20 each. Pursuant to a resolution passed in the extraordinary general meeting held on 18 January 2017 and with effect from 19 January 2017, the authorised capital has been increased to HK\$300,000,000 divided into 1,500,000,000 consolidated shares by the creation of additional 1,000,000,000 consolidated shares, which shall rank *pari passu* in all respects with the consolidated shares in issue.

- b) Pursuant to four separate subscription agreements entered into between the Company and four independent subscribers (the "Subscribers") on 9 May 2017, 75,000,000 new ordinary shares of the Company allotted and issued at a price of HK\$0.20 per share to the Subscribers for a total gross cash consideration of HK\$15,000,000, which resulted in an increase in share capital by HK\$15,000,000. The completion of the subscription of new shares took place on 5 June 2017.

15. CAPITAL COMMITMENT

	Unaudited 30 June 2017 HK\$	Audited 31 December 2016 HK\$
Contracted but not provided for:		
– Acquisition of property, plant and equipment	1,388,175	8,174,849

16. RELATED PARTY TRANSACTIONS

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

Transaction with related parties

Related party relationship	Notes	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2017	2016	2017	2016
		HK\$	HK\$	HK\$	HK\$
<u>Hota Group, a joint venture</u>					
Interest income on amount due from a joint venture	1	–	8,981,042	–	17,992,336
Fees earned from providing financial and management consultancy service	1	–	1,464,657	–	2,941,130
<u>上海建州石化有限公司</u> <u>(“Shanghai Jianzhou”)</u>					
Sales of petro-chemical products	2	–	31,918,211	–	76,613,487
Purchase of petro-chemical products	2	–	141,256	–	858,533

Notes:

- The Group ceased to recognize loan interest income and financial and management consultancy services income since 3rd quarter of 2016.
- Mr. Zhang Zixiang, a director of a major subsidiary of the Group prior to 15 March 2016, is the beneficial shareholder of Shanghai Jianzhou.

MANAGEMENT DISCUSSION AND ANALYSIS

Operation and Financial Review

Revenue

During the Reporting Period, the Group's financial result was principally derived from the sales of petro-chemical products and the contract manufacturing and sales of smart cards.

Sales of petro-chemical products

During the Reporting Period, sales of petro-chemical products conducted by Shanghai Phoenitron and its subsidiary continued to be the key revenue generator of the Group. However, due to the volatile and the tumbling of crude oil price, the Group adopted a conservative approach which includes the performance of some contracts was delayed to next quarter and avoided entering into some short-term, potentially loss-making contracts. As a result, revenue recorded during the reporting period amounted to approximately HK\$239.0 million only, representing a decrease of approximately HK\$1,113.9 million, or 82.3%, as compared to the corresponding period in 2016 of approximately HK\$1,352.9 million.

Contract manufacturing and sales of smart cards

During the Reporting Period, revenue derived from contract manufacturing and sales of smart cards composed of the SIM cards manufacturing business only, as opposed to the revenue for corresponding period in last year which consisted of the revenue derived from both (i) the SIM card manufacturing business; and (ii) the module packaging and testing service business that had been disposed of by end of 2016 (revenue for the six months ended 30 June 2016: about HK\$16.2 million).

During the Reporting Period, the Group's revenue generated from the SIM card manufacturing business amounted to approximately HK\$24.7 million, down by approximately HK\$5.2 million or 17.4% as compared to the corresponding period in 2016 of approximately HK\$29.9 million. The drop in revenue of the SIM cards manufacturing business was partly caused by the relocation of our Shenzhen plant that took place by end of 2016 and early January 2017, as customers tended to either place their orders before the relocation or wait until afterwards when the new plant has resumed normal operations.

Provision of financial and management consultancy services

No revenue was generated from the provision of financial and management consultancy services during the Reporting Period (six months ended 30 June 2016: approximately HK\$2.94 million).

Cost of Sales ("COS") and Gross Profit

During the Reporting Period, the Group's COS comprised of the COS from each of the sales of petro-chemical products business segment and the contract manufacturing and sales of smart cards business segment.

Sales of petro-chemical products

During the Reporting Period, COS in relation to the sales of petro-chemical products amounted to approximately HK\$238.2 million, representing a decrease of approximately HK\$1,111.2 million, or 82.3%, as compared to the corresponding period in 2016 of approximately HK\$1,349.4 million. Gross profit dropped from approximately HK\$3.5 million for the corresponding period in 2016 to approximately HK\$0.8 million due to the reduced sales and also the fluctuations in the international crude oil price that reduced the profit margin during the Reporting Period.

Contract manufacturing and sales of smart cards

Similar to the revenue situation, COS incurred for the contract manufacturing and sales of smart cards during the Reporting Period composed only of the SIM cards manufacturing business, as opposed to the COS for corresponding period in last year which consisted of the COS incurred in relation to (i) the SIM cards manufacturing business; and (ii) the module packaging and testing services business that had been disposed of by end of 2016 (COS for the six months ended 30 June 2016: about HK\$20.0 million).

During the Reporting Period, cost of sales incurred for the SIM card manufacturing business amounted to approximately HK\$15.9 million, down by approximately HK\$5.7 million or 26.4% as compared to the corresponding period in 2016 of approximately HK\$21.6 million. The drop in COS was due primarily to drop in revenue as compared to the corresponding period in last year. As a result, gross profit generated from the SIM card manufacturing business segment amounted to approximately HK\$8.8 million, representing an increase of approximately HK\$0.5 million, or 6.0%, as compared to the corresponding period in 2016 of approximately HK\$8.3 million.

Due to the above-mentioned, gross profit of the Group dropped by approximately HK\$1.3 million or 11.9%, from the corresponding period in 2016 of approximately HK\$10.9 million, to approximately HK\$9.6 million.

Other Income

Other income of approximately HK\$0.1 million (six months ended 30 June 2016: approximately HK\$18.0 million) was mainly comprised of sundry income. The significant drop in other income during the Reporting Period was wholly attributable to the fact that the Company has ceased to accrue interest income chargeable to Hota Group since the third quarter of 2016 as the whole amount due by Hota Group has been fully impaired.

Other (Losses)/Gains, Net

During the Reporting Period, other losses amounted to approximately HK\$0.27 million (six months ended 30 June 2016: approximately HK\$1.58 million) which was attributable to the exchange losses arising from foreign currency-based transactions of approximately HK\$0.50 million but partially offset by a gain on disposal of certain fixed assets in relation to the Shenzhen SIM card plant of approximately HK\$0.23 million.

Selling and Distribution Costs

During the Reporting Period, selling and distribution costs amounted to approximately HK\$2.11 million, representing a drop of approximately HK\$2.17 million, or 50.7%, as compared to the corresponding period in 2016 of approximately HK\$4.28 million. The decrease was mainly due to the decrease in transportation costs and freight charge by a total of approximately HK\$1.40 million that were attributable to the dropped in sales of each of the petro-chemical products segment and the SIM card segment, and also partially due the drop in various selling expenses of a total of about HK\$0.77 million resulted from the disposal of Beijing module packaging and testing service plant by end of 2016.

Administrative Expenses

Administrative expenses recorded a decrease of approximately HK\$5.30 million, or 30.3% during the Reporting Period, from approximately HK\$17.49 million for the corresponding period in 2016, to approximately HK\$12.19 million. The decrease was largely due to the following factors: (i) the drop in various general administrative expenses of a total of approximately HK\$3.92 million resulted from the closing down of the Beijing SIM card plant since early 2016 and the disposal of Beijing module packaging and testing service plant by end of 2016; (ii) decrease in legal and professional fee of approximately HK\$1.11 million for other group companies; and (iii) the net decreases in various administrative expenses of a total of approximately HK\$0.27 million that were attributable to the drop in sales of each of the petro-chemical products segment and the overseas SIM card segment.

Finance Costs

During the Reporting Period, the Group's finance costs amounted to approximately HK\$0.47 million (six months ended 30 June 2016: approximately HK\$0.44 million).

Income Tax Expense

During the period under review, the income tax expense of the Group amounted to approximately HK\$0.35 million (six months ended 30 June 2016: approximately HK\$0.49 million) and was mainly derived from profit from overseas SIM card segment.

As a result of the foregoing, loss attributable to owners of the Company during the Reporting Period amounted to approximately HK\$5.71 million (six months ended 30 June 2016: profit of approximately HK\$4.31 million).

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 2017, the Group had cash and bank balances and pledged bank deposits of HK\$5.4 million (31 December 2016: HK\$4.2 million), secured bank loans and other borrowings of HK\$10.5 million (31 December 2016: HK\$12.5 million).

As at 30 June 2017, the Group had current assets of HK\$142.6 million (31 December 2016: HK\$129.2 million) and current liabilities of HK\$52.5 million (31 December 2016: HK\$49.6 million). The current ratio, expressed as current assets over current liabilities, was maintained at a level of 2.7 (31 December 2016: 2.6).

EMPLOYEE INFORMATION

As at 30 June 2017, the Group employed a total of 200 employees (31 December 2016: 204 employees), of which 13 were located in Hong Kong and 7 were located in Taiwan and the rest were located in the PRC. Employee cost, including Directors' remuneration, was HK\$11.7 million (six months ended 30 June 2016: HK\$17.3 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 2017.

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 2017.

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 2017.

CHARGE ON GROUP ASSETS

At 30 June 2017, bank deposit of HK\$0.8 million was pledged by a Company's subsidiary as collateral to secure general banking facilities granted to the Group (31 December 2016: HK\$9,295).

GEARING RATIO

The gearing ratio of the Group, expressed as a percentage of total borrowings to total assets of the Group, was 6.8% as at 30 June 2017 (31 December 2016: 8.9%).

CONTINGENT LIABILITIES

As at 30 June 2017, 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 States Dollars ("US\$"). These are not the functional currencies of the Group entities to which these transactions relate.

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

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

As at 30 June 2017, 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	100,000	500,000	0.13
Chang Wei Wen	Beneficial owner	Long	525,000	–	0.12
Yang Meng Hsiu	Beneficial owner	Long	4,300,000	–	0.95

Note:

1. These include 500,000 share options conferring rights to subscribe for 500,000 shares.

Save as disclosed above, as at 30 June 2017, 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 2017, 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. (Note 1)	Beneficial	Long	51,927,512	11.51
Best Heaven Limited (Note 1)	Beneficial	Long	31,586,500	7.00
Mr. Tsai Chi Yuan (Note 1)	Interests in controlled company	Long	83,514,012	18.51

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 2017, 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 2017	Granted/ Exercised/ Cancelled/ Lapsed during the period	At 30 June 2017	Date of grant	Exercisable period	Exercise price HK\$
Executive Director						
Lily Wu	500,000	–	500,000	17 November 2008	17 November 2008 to 16 November 2018	1.86

As at 30 June 2017, the remaining life of the New Share Option Scheme was about 1.45 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 2017 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 2017, 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 2017.

COMPETING INTERESTS

As at 30 June 2017, 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

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 2017.

CHANGE IN DIRECTORS

Name of Director	Details of change
Mr. Wang Jia Hua	Ceases to hold office as an executive director and the managing director of the Company with effect from 5 January 2017. For more details, please refer to the Company's announcement published on 6 January 2017.

For and on behalf of the Board
Lily Wu
Chairman

Hong Kong, 8 August 2017

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

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