PHOENITRON HOLDINGS LIMITED

品創控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8066)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

CHARACTERISTICS OF 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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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

HIGHLIGHTS

- Revenue for the year ended 31 December 2017 amounted to approximately HK$380,960,000, representing a decrease of 84.1% as compared to the corresponding period in 2016 of approximately HK$2,399,113,000.

- The Group recorded an audited loss attributable to the owners of the Company of approximately HK$19,770,000 for the year ended 31 December 2017.

- The Board does not recommend any payment of a final dividend for the year ended 31 December 2017 (2016: nil).

CHAIRMAN'S STATEMENT

TO OUR SHAREHOLDERS

On behalf of the Board of Directors, I am pleased to present to you the results of Phoenitron Holdings Limited (the "Company") and its subsidiaries (together, the "Group") for the financial year ended 31 December 2017 (the "Reporting Period").

RESULTS

For the year ended 31 December 2017, the Company recorded a consolidated revenue of approximately HK$380,960,000 (2016: approximately HK$2,399,113,000) and loss attributable to owners of the Company of approximately HK$19,770,000 (2016: approximately HK$234,002,000).

DIVIDEND

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

BUSINESS AND OPERATION REVIEW

During the Reporting Period, the Group is principally engaged in the contract manufacturing and sales of smart cards, and the setting up of natural gas stations in Yangtze River Delta and other petro-chemical related businesses.

Contract manufacturing and sales of smart cards

During the Reporting Period, the Group's result on contract manufacturing and sales of overseas SIM cards business was not up to our expectations. Though we managed to complete the relocation of the SIM card plant from the Futian Free Trade Zone of Shenzhen City, to a 5,800m^2 new plant in the periphery Shenzhen City by the end of 2016 and early January 2017 and successfully completed the certification processes of our existing and potential customers as planned, the process of re-applying and granting of the import permits of certain raw materials took much longer than expected until early May. Due to this unexpected delay, the production plan was disrupted for the first half of 2017.

Meanwhile, revenue derived from the overseas SIM-card business segment during the Reporting Period was also adversely affected by unforeseen mergers and consolidation activity among the customers themselves and also by the operational restructuring of one of the largest customers. Fortunately, the management team was able to secure new customer orders to partially offset the negative effect brought by the above issues. For the first two months of 2018, the operational restructuring of the above-mentioned customer was still undergoing and yet to be completed. It is expected that the sales orders from this customer shall return to prior levels (or more) starting from March 2018.

Financially, due to the above-mentioned factors, a segment loss of approximately HK$4.8 million (2016: profit of approximately HK$7.7 million) was recorded for the overseas SIM card market segment.

Apart from the traditional SIM card services, we will also be providing certain higher-value-added SIM card services (e.g. multi-SIMs) as well as higher-value-added non-SIM card ancillary services (e.g. fulfilments) in the coming year.

During the Reporting Period, a segment loss of approximately HK$3.0 million (2016: approximately HK$8.7 million) was recorded for the PRC SIM-card business segment. Though the operations of this segment have already ceased, certain fixed overheads such as rental expense (as certain leases were expired by mid of 2017 only), depreciation charges (including write-offs or disposal during the Reporting Period) and certain staff costs (for assisting the complete closure of plants) were still incurred during the Reporting Period.

Setting up natural gas stations in the Yangtze River Delta region and other petro-chemical related businesses

The Group's joint venture in Shanghai, namely, Shanghai Phoenitron Petroleum & Chemical Company Limited ("Shanghai Phoenitron"), whose main business is the operation of natural gas filling stations in the Yangtze River Delta region and other petro-chemical related business, operated for another full financial year. During the Reporting Period, Shanghai Phoenitron, and 上海仁重新能源科技有限公司("Shanghai Renzhong"), a wholly-owned subsidiary of Shanghai Phoenitron, were principally engaged in the wholesale of petro-chemical products and retailing of oils products. Shanghai Phoenitron, together with Shanghai Renzhong, generated revenue of approximately HK$334.7 million (2016: approximately HK$2,311.5 million) during the Reporting Period and continued to be the key revenue generator for the Group.

Given the volatility of global oil prices during the Reporting Period (in particular, the first half of 2017), and having considered the risk exposures and rewards, we adopted a conservative approach towards the petro-chemical products business in our third full year of operations. For the coming year, our focus in this business segment will be on the development of the clean energy business (i.e. LNG) instead of sales of petro-chemical products. Hence we expect that the revenue contribution from the sales of petro-chemical products will further decline.

Provision of customised smart card application systems

Revenue generated from the provision of customised smart card application systems was approximately the same as in the previous year. The management will keep exploring new business opportunities in this segment.

Processing and sales of scrap metals

There was no revenue generated from this segment during the Reporting Period (2016: nil). In light of the prevailing industry situation and the growth in the domestic market of non-ferrous metal scrap in China, a joint venture has been formed with a view to re-activate the business in the coming year.

FINANCING OVERVIEW

During the Reporting Period, the Company completed a share consolidation (the "Share Consolidation"). The Share Consolidation increased the nominal value of the shares of the Company (the "Shares") and reduced the total number of Shares in issue. As such, the Share Consolidation brought about a corresponding upward adjustment in the trading price of the Shares. Prior, the trading price of the Shares dropped significantly from July 2016 to below HK$0.10, and remained at that level. The Directors considered that a higher trading price of the Consolidated Shares at a level above HK$0.10 would better reflect the potential of the Group. With a higher trading price of the Consolidated Shares and the reduction of the transaction and handling costs as a proportion of the market value of each board lot, the Company believes that the Share

Consolidation makes investing in the Shares more attractive to a broader range of institutional and professional investors and other members of the investing public, and thus could broaden the shareholder base of the Company.

During the Reporting Period, the Company had entered into separate subscription agreements with several subscribers (the "Subscribers") in relation to the subscription of a total of 75,000,000 new shares of the Company at the subscription price of HK$0.20 per subscription share (the "Subscriptions"). Completion of the Subscriptions took place on 5 June 2017. The net proceeds, after deducting relevant expenses, of approximately HK$15.0 million has been applied (as intended) for (i) general working capital of the Group of approximately HK$6.8 million and (ii) repayment of certain loans of a total of approximately HK$8.2 million.

As mentioned in previous announcements of the Company, in view of the former SIM card plant in Shenzhen running at full capacity and was no longer be able to meet the expected increase in orders from the overseas SIM card customers, we completed the relocation from the old plant to a new, larger plant by early January 2017. Hence, more working capital was needed to finance the Group's SIM card business and operations. The Directors considered that the Subscriptions represented opportunities to raise additional funding for the Group's business operations and would strengthen the capital base and financial position for the Group (by lowering the gearing ratio and reducing the finance costs). In addition, the Directors considered that the Subscriptions were the preferred method of fund raising as compared with other equity fund raising exercises based on the time and costs involved.

For more details, please refer to the Company's announcements dated 9 May 2017 and 5 June 2017.

PROSPECTS

Looking forward, we expect the Group will gradually move back towards profitability in 2018. The Board will place greater emphasis on developing its LNG projects as well as the processing and sales of scrap metals business so as to bring more stable and substantial profit to the Group. Meanwhile, the Company will continue to explore the potential to both increase SIM card revenue from the overseas market with the added capacity, and to also increase profit through better and more efficient utilisation of the Group's assets and lowering of the operating costs of production. We are hopeful that the results of this segment will turn to profit again in the coming year. We believe, by applying the Company's funds in an appropriate manner and by utilizing the unique investment opportunities of the Company, we will bring stable revenues and profits for our shareholders. The Board believes the diversification and synthesis of our businesses will facilitate the long term development of the Group and enhance our shareholder value.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to take this opportunity to extend our gratitude to all members of the Board and staff for their dedication and contribution to the Group throughout the year 2017. I would also like to express my heartfelt appreciation to our shareholders, business partners, investors and customers for their continuous support.

Lily WU
Chairman

Hong Kong, 20 March 2018

The board of Directors (the "Board") announces the consolidated results of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2017 together with the comparative figures for the corresponding period in 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	**2017** ***HK$***	2016 *HK$*
Revenue	*4*	**380,960,322**	2,399,113,013
Cost of sales		**(369,634,249)**	(2,381,299,603)
Gross profit		**11,326,073**	17,813,410
Other income	*5*	**235,382**	19,049,036
Other (losses)/gains, net	*6*	**(485,489)**	10,231,328
Selling and distribution costs		**(4,064,191)**	(7,487,860)
Administrative expenses		**(25,537,837)**	(35,567,985)
Impairment loss on available-for-sale financial assets		**–**	(11,739,442)
Impairment loss on amount due from a joint venture		**–**	(223,020,200)
Impairment loss on amount due from non-controlling interests		**–**	(500,000)
Impairment loss on other receivables and prepayments		**(641,026)**	(1,095,000)
Finance costs	*7*	**(786,638)**	(647,613)
Loss before income tax	*8*	**(19,953,726)**	(232,964,326)
Income tax credit/(expense)	*9*	**11,163**	(880,361)
Loss for the year		**(19,942,563)**	(233,844,687)
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss:			
Exchange gain/(loss) on translation of financial statements of foreign operations		**7,770,938**	(6,615,324)
Release of translation reserve on disposal of subsidiaries		**–**	(1,636,158)
Reclassification adjustment of available-for-sale financial assets revaluation reserve upon impairment		**–**	11,739,442
Other comprehensive income for the year		**7,770,938**	3,487,960
Total comprehensive loss for the year		**(12,171,625)**	(230,356,727)

	Notes	**2017** *HK$*	2016 *HK$*
(Loss)/Profit for the year attributable to:			
Owners of the Company		**(19,770,206)**	(234,001,534)
Non-controlling interests		**(172,357)**	156,847
		(19,942,563)	(233,844,687)
Total comprehensive (loss)/income for the year attributable to:			
Owners of the Company		**(13,795,403)**	(228,946,329)
Non-controlling interests		**1,623,778**	(1,410,398)
		(12,171,625)	(230,356,727)
		HK Cents	*HK Cents*
Loss per share	*11*		
– Basic		**(4.713)**	(62.181)
– Diluted		**(4.713)**	(62.181)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2017

	Notes	2017 HK$	2016 HK$
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**9,804,732**	8,408,272
Intangible asset		**420,000**	420,000
Prepayments for acquisition of property, plant and equipment		**–**	2,121,143
Interests in associates		**–**	–
Long-term financial assets	*12*	**–**	–
		10,224,732	10,949,415
Current assets			
Inventories		**1,551,977**	186,768
Trade and other receivables	*13*	**230,048,287**	123,654,580
Amount due from a joint venture	*14*	**–**	–
Tax recoverable		**965,896**	1,188,401
Pledged bank deposits		**2,212,324**	9,295
Cash and cash equivalents		**2,283,931**	4,199,398
		237,062,415	129,238,442
Current liabilities			
Trade and other payables	*15*	**139,947,030**	37,121,793
Borrowings		**13,923,034**	12,452,356
		153,870,064	49,574,149
Net current assets		**83,192,351**	79,664,293
Total assets less current liabilities		**93,417,083**	90,613,708
Non-current liabilities			
Deferred tax liabilities		**4,707**	4,707
Net assets		**93,412,376**	90,609,001
EQUITY			
Share capital		**90,258,500**	75,258,500
Reserves		**(22,516,275)**	(8,695,872)
Equity attributable to owners of the Company		**67,742,225**	66,562,628
Non-controlling interests		**25,670,151**	24,046,373
Total equity		**93,412,376**	90,609,001

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to owners of the Company										
	Share capital	Share premium*	Contributed surplus*	Share option reserve*	Other reserves*	Translation reserve*	Available-for-sale financial assets revaluation reserve*	Accumulated losses*	Total	Non-controlling interests	Total equity
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Balance 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)	295,691,050	25,456,771	321,147,821
Repurchase of shares	(25,400)	(156,693)	–	–	–	–	–	–	(182,093)	–	(182,093)
Transactions with owners	(25,400)	(156,693)	–	–	–	–	–	–	(182,093)	–	(182,093)
(Loss)/Profit for the year	–	–	–	–	–	–	–	(234,001,534)	(234,001,534)	156,847	(233,844,687)
Other comprehensive (loss)/income											
– Translation of financial statements of foreign operations	–	–	–	–	–	(5,048,079)	–	–	(5,048,079)	(1,567,245)	(6,615,324)
– Release of translation reserve on disposal of subsidiaries	–	–	–	–	–	(1,636,158)	–	–	(1,636,158)	–	(1,636,158)
– Reclassification adjustment of available-for-sale financial assets revaluation reserve upon impairment	–	–	–	–	–	–	11,739,442	–	11,739,442	–	11,739,442
Total comprehensive (loss)/income for the year	–	–	–	–	–	(6,684,237)	11,739,442	(234,001,534)	(228,946,329)	(1,410,398)	(230,356,727)
Balance at 31 December 2016 and 1 January 2017	**75,258,500**	**363,367,716**	**13,985,669**	**1,360,008**	**7**	**2,150,237**	**–**	**(389,559,509)**	**66,562,628**	**24,046,373**	**90,609,001**
Issue of share upon shares subscription	**15,000,000**	**(25,000)**	**–**	**–**	**–**	**–**	**–**	**–**	**14,975,000**	**–**	**14,975,000**
Transactions with owners	**15,000,000**	**(25,000)**	**–**	**–**	**–**	**–**	**–**	**–**	**14,975,000**	**–**	**14,975,000**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(19,770,206)**	**(19,770,206)**	**(172,357)**	**(19,942,563)**
Other comprehensive income											
– Translation of financial statements of foreign operations	**–**	**–**	**–**	**–**	**–**	**5,974,803**	**–**	**–**	**5,974,803**	**1,796,135**	**7,770,938**
Total comprehensive income/(loss) for the year	**–**	**–**	**–**	**–**	**–**	**5,974,803**	**–**	**(19,770,206)**	**(13,795,403)**	**1,623,778**	**(12,171,625)**
Balance at 31 December 2017	**90,258,500**	**363,342,716**	**13,985,669**	**1,360,008**	**7**	**8,125,040**	**–**	**(409,329,715)**	**67,742,225**	**25,670,151**	**93,412,376**

* The total of these accounts as at the reporting date represents "Reserves" of HK$22,516,275 (2016: HK$8,695,872) in deficit in the consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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

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

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

It should be noted that accounting estimates and assumptions are used in the preparation of these financial statements. Although these estimates and assumptions are based on management's best knowledge and judgment of current events and actions, actual results may ultimately differ from those estimates and assumptions.

2. ADOPTION OF NEW AND AMENDED HKFRSs

(a) New and amended HKFRSs that are effective for annual periods beginning or after 1 January 2017

In the current year, the Group has applied for the first time the following new and amended HKFRSs issued by the HKICPA which are relevant to the Group's operations and effective for the Group's consolidated financial statements for the annual period beginning on 1 January 2017:

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in Annual Improvements to HKFRSs 2014-2016 Cycle	*Disclosure of Interests in Other Entities*

Other than as noted below, the adoption of the new and amended HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

Amendments to HKAS 7 "Disclosure Initiative"

The amendments require an entity to provide disclosure that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Apart from this additional disclosure, the application of these amendments has had no impact on the Group's consolidated financial statements.

(b) Issued but not effective HKFRSs

At the date of authorisation of these consolidated financial statements, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[3]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[2]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019
[3] Effective for annual periods beginning on or after 1 January 2021
[4] Effective date not yet determined

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Other new and amended HKFRSs are not expected to have a material impact on the Group's financial statements.

HKFRS 9 "Financial Instruments"

HKFRS 9 replaces HKAS 39 "Financial Instruments: Recognition and Measurement". It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an "expected credit loss" model for the impairment of financial assets.

HKFRS 9 also contains new requirements on the application of hedge accounting. The new requirements look to align hedge accounting more closely with entities' risk management activities by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assessing hedge effectiveness.

The directors have identified the following areas that are expected to be most impacted by the application of HKFRS 9:

- the impairment of financial assets applying the expected credit loss model. This will apply to the Group's trade receivables (note 13). For contract assets arising from HKFRS 15 and trade receivables, the Group applies a simplified model of recognising lifetime expected credit losses as these items do not have a significant financing components.

HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 and the related clarification to HKFRS 15 (hereinafter referred to as "HKFRS 15") presents new requirements for the recognition of revenue, replacing HKAS 18 "Revenue", HKAS 11 "Construction Contracts", and several revenue-related Interpretations. HKFRS 15 establishes a single comprehensive model that applies to contracts with customers and two approaches to recognising revenue; at a point in time or overtime. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

HKFRS 15 is effective for annual periods beginning on or after 1 January 2018. Based on the assessment completed to date, the Group has identified the following areas which are expected to be affected:

(a) Timing of revenue recognition

Currently, revenue arising from provision of services is recognised over time, whereas revenue from sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

Under HKFRS 15, revenue is recognised when customer obtains control of the promised good or service in the contract. HKFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

(i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(ii) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when transfer of control occurs.

The Group has assessed that the new revenue standard is not likely to have significant impact on how it recognise revenue from sale of goods and service income.

(b) Sales with a right of return

Currently when the customers are allowed to return the Group's products, the Group estimates the level of expected returns and makes an adjustment against revenue and cost of sales.

The Group has assessed that the adoption of HKFRS 15 will not materially affect how the Group recognise revenue and cost of sales when the customers have a right of return.

However, the new requirement to recognise separately a return asset for the products expected to be returned will impact the presentation in the consolidated statement of financial position as the Group currently adjusts the carrying amounts of inventory for the expected returns, instead of recognising a separate asset.

The directors do not consider that the application of HKFRS 15 will likely to have significant financial impact on the Group's financial performance and financial position for the current and prior periods. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial results from 2018 onwards.

HKFRS 16 "Leases"

HKFRS 16 "Leases" will replace HKAS 17 and three related Interpretations.

Currently, the Group classifies leases into operating leases with no finance leases and accounts for the lease arrangements accordingly. The Group enters into leases as the lessee and no lease as the lessor.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease, the lessee will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee would recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases of land and buildings which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. Once HKFRS 16 is adopted, the Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The standard offers different transition options and practical expedients, including the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. If this practical expedient is chosen, the Group will apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. If the practical expedient is not chosen, the Group will need to reassess all of its decisions about which existing contracts are, or contain, leases, using the new definition. Depending on whether the Group elects to adopt HKFRS 16 retrospectively or follow a modified retrospective method of recognising a cumulative-effect adjustment to the opening balance of equity at the date of initial application, the Group may or may not need to restate comparative information for any changes in accounting resulting from the reassessment.

3. SEGMENT INFORMATION

The operating segments are reported in a manner consistent with the way in which information is reported internally to the executive directors for the purposes of resources allocation and assessment of segment performance. The business components in the internal reporting to the executive directors, the chief operating decision-makers, are determined following the Group's major product and service lines. The Group is currently organised into the following five operating segments:

- Sales of smart cards;
- Sales of smart card application systems;
- Financial and management consultancy services;
- Trading of scrap metals; and
- 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, gain on disposal of subsidiaries, impairment loss on available-for-sale financial assets, impairment loss on amount due from a joint venture, impairment loss on amount due from non-controlling interests, impairment loss on other receivables and prepayments, 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 asset, tax recoverable, assets which are not attributable to the business activities of the operating segments and other assets which are managed on a group basis such as 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.

Segment results, segment assets and segment liabilities

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

2017

	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$*	Unallocated *HK$*	Consolidated *HK$*
Reportable segment revenue	46,147,518	87,950	–	–	334,724,854	–	380,960,322
Reportable segment loss	(7,030,386)	(522)	(359,424)	(3,494,792)	(680,474)	–	(11,565,598)
Finance costs							(786,638)
Impairment loss on other receivables and prepayments							(641,026)
Exchange losses, net							(830,664)
Corporate expenses, net							(6,129,800)
Loss before income tax							(19,953,726)
Reportable segment assets	31,643,960	33,790	–	3,048,621	203,292,558	3,386,067	241,404,996
Intangible asset							420,000
Tax recoverable							965,896
Pledged bank deposits							2,212,324
Cash and cash equivalents							2,283,931
Total consolidated assets							247,287,147
Reportable segment liabilities	33,522,662	27,500	–	150,568	103,396,941	2,849,359	139,947,030
Borrowings							13,923,034
Deferred tax liabilities							4,707
Total consolidated liabilities							153,874,771
Other information							
Depreciation	3,303,184	–	–	186,342	–	2,783	3,492,309
Interest income	800	1	–	82	1,015	33	1,931
Additions to property, plant and equipment	4,349,108	–	–	4,646	–	33,400	4,387,154

2016

	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$*	Unallocated *HK$*	Consolidated *HK$*
Reportable segment revenue	84,662,050	27,220	2,941,130	–	2,311,482,613	–	2,399,113,013
Reportable segment (loss)/profit	(19,012,577)	(8,687)	20,601,273	(2,894,742)	2,098,348	–	783,615
Finance costs							(647,613)
Gain on disposal of subsidiaries							8,389,411
Impairment loss on available-for-sale financial assets							(11,739,442)
Impairment loss on amount due from a joint venture							(223,020,200)
Impairment loss on amount due from non-controlling interests							(500,000)
Impairment loss on other receivables and prepayments							(1,095,000)
Exchange losses, net							(399,812)
Corporate expenses, net							(4,735,285)
Loss before income tax							(232,964,326)
Reportable segment assets	36,042,545	5,600	–	2,501,586	93,690,741	2,130,291	134,370,763
Intangible asset							420,000
Tax recoverable							1,188,401
Pledged bank deposits							9,295
Cash and cash equivalents							4,199,398
Total consolidated assets							140,187,857
Reportable segment liabilities	31,310,431	19,300	–	1,175,409	2,278,810	2,337,843	37,121,793
Borrowings							12,452,356
Deferred tax liabilities							4,707
Total consolidated liabilities							49,578,856
Other information							
Depreciation	13,499,519	–	–	181,450	–	78,780	13,759,749
Interest income	8,408	1	17,992,336	6,218	1,776	94	18,008,833
Additions to property, plant and equipment	3,152,185	–	–	–	–	–	3,152,185

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

Geographical information

The following table presents the revenue from external customers for the reporting period and the specified non-current assets by geographical locations as at the reporting date.

	Revenue from external customers		**Specified non-current assets**	
	2017	2016	**2017**	2016
	HK$	*HK$*	***HK$***	*HK$*
People's Republic of China (the "PRC")	**335,287,338**	2,322,344,102	**9,389,313**	8,718,168
Europe	**14,910,869**	26,838,934	**–**	–
Africa	**27,125,349**	26,765,324	**–**	–
Asia, excluding the PRC and Hong Kong	**1,012,496**	15,176,846	**253,388**	1,636,066
Hong Kong	**2,624,270**	5,046,677	**582,031**	595,181
Others	**–**	2,941,130	**–**	–
Total	**380,960,322**	2,399,113,013	**10,224,732**	10,949,415

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

Specified non-current assets include property, plant and equipment, intangible asset, prepayments for acquisition of property, plant and equipment and interests in associates.

Information about major customers

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

	2017	2016
	HK$	*HK$*
Customer A	**246,143,733**	1,942,376,289
Customer B	**85,514,486**	N/A[3]
Customer C	**N/A[1]**	N/A[2]
Customer D	**N/A[1]**	N/A[2]
Customer E	**N/A[1]**	N/A[2]

1 The corresponding revenue did not contribute over 10% of total revenue of the Group during the current year.

2 The corresponding revenue did not contribute over 10% of total revenue of the Group during the prior year.

3 This is a new customer in 2017. Therefore, the customer did not contribute any revenue to the Group in 2016.

4. REVENUE

Revenue from the Group's principal activities recognised during the reporting period is as follows:

	2017	2016
	HK$	*HK$*
Sales of smart cards	**46,147,518**	84,662,050
Sales of smart card application systems	**87,950**	27,220
Financial and management consultancy services	**–**	2,941,130
Sales of petro-chemical products	**334,724,854**	2,311,482,613
	380,960,322	2,399,113,013

5. OTHER INCOME

	2017	2016
	HK$	HK$
Interest income from amount due from a joint venture	**–**	17,992,336
Bank interest income	**1,931**	16,497
Government grant *(note)*	**–**	429,733
Sundry income	**233,451**	610,470
	235,382	19,049,036

Note:

The grant was to subsidise the Group for contributing the development and trading in the Shanghai Pilot Free Trade Zone. There are no unfulfilled conditions or contingencies relating to these grants.

6. OTHER (LOSSES)/GAINS, NET

	2017	2016
	HK$	*HK$*
Gain on disposal of property, plant and equipment	**345,175**	2,241,729
Gain on disposal of subsidiaries *(note 16)*	**–**	8,389,411
Exchange losses, net	**(830,664)**	(399,812)
	(485,489)	10,231,328

7. FINANCE COSTS

	2017	2016
	HK$	*HK$*
Interest charges on bank loans	**175,535**	481,111
Interest charges on other borrowings	**611,103**	166,502
	786,638	647,613

8. LOSS BEFORE INCOME TAX

	2017	2016
	HK$	*HK$*
Loss before income tax is arrived at after charging:		
Auditor's remuneration		
– Audit services	**731,660**	749,989
– Non-audit services	**120,000**	120,000
Costs of inventories recognised as an expense *(note)*	**369,634,249**	2,381,299,603
Written-off of property, plant and equipment	**185,831**	584,567
Depreciation	**3,492,309**	13,759,749
Bad debts written off	**393,634**	3,241,722
Employee benefit expenses	**22,734,114**	31,501,217
Operating lease charges on land and buildings	**5,222,895**	7,044,176

Note:

Cost of inventories includes HK$15,372,244 (2016: HK$31,091,614) relating to depreciation, staff costs and operating lease charges.

9. INCOME TAX (CREDIT)/EXPENSE

	2017	2016
	HK$	*HK$*
Current tax		
Hong Kong Profits Tax:		
Current year	**–**	378,075
Over-provision in prior year	**(19,802)**	(13,892)
	(19,802)	364,183
PRC Enterprise Income Tax:		
Current year	**5,787**	516,178
Under-provision in prior year	**2,852**	–
	8,639	516,178
Total income tax (credit)/expense	**(11,163)**	880,361

Notes:

(a) Hong Kong Profits Tax

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits for the year and prior year.

(b) PRC Enterprise Income Tax

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 year and prior year based on the existing legislation, interpretations and practices in respect thereof. The applicable income tax rate is 25% (2016: 25%) for the year ended 31 December 2017.

10. DIVIDENDS

The Board does not recommend the payment of any dividend in respect of the year ended 31 December 2017 (2016: nil).

11. LOSS PER SHARE

(a) Basic loss per share

Basic loss per share is calculated by dividing the loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year, calculated as follows:

	2017	2016
Loss attributable to owners of the Company *(HK$)*	**(19,770,206)**	(234,001,534)
Weighted average number of ordinary shares in issue *(note)*	**419,443,185**	376,324,191
Basic loss per share *(expressed in HK cents per share)*	**(4.713)**	(62.181)

Note:

The share consolidation pursuant to the shareholders resolutions dated 18 January 2017 is adjusted in the weighted average number of ordinary shares in issue and effect of deemed issue of shares under the Company's share option scheme as if the share consolidation had occurred at 1 January 2016, the beginning of the earliest period reported.

(b) Diluted loss per share

No adjustment has been made to the basic loss per share as the outstanding share options had anti-dilutive effect on the basic loss per share for the year ended 31 December 2017 and 2016.

12. LONG-TERM FINANCIAL ASSETS

Hota (USA) Holding Corp. ("Hota (USA)") is an investment holding company incorporated in the United States of America ("USA"), and its subsidiary is principally engaged in the business of disintegration of used automobiles and sale of metal derived from automobiles in Zhangjiagang, the PRC (the "Resources Recycling Business").

As at 31 December 2017, the Group is interested in (i) 83.33% (2016: 83.33%) of the Series A preferred shares of Hota (USA), which entitles the Group to receive 5% non-cumulative dividends and are redeemable at 100% of the respective principal amount since the 3rd quarter of 2012; and (ii) 35.29% (2016: 35.29%) of the common shares of Hota (USA). Each of the Series A preferred shares entitles the holder thereof to convert the same into one common share of Hota (USA) and the holders of the Series A preferred shares shall be entitled to have one vote for each common share of Hota (USA) into which each Series A preferred share is convertible on an as-converted basis, and shall vote together with the holders of the common shares. Accordingly, the Group is interested in 57.81% (2016: 57.81%) of the entire share capital of Hota (USA) as at 31 December 2017 as enlarged by the allotment and issue of the common shares upon exercise of the conversion rights attaching to the entire Series A preferred shares in issue. The board of Hota (USA) comprised of 4 directors, 2 of whom were appointed by the Group and decision is taken by simple majority. Accordingly, the directors regard Hota (USA) as a joint venture of the Group.

The Group's investment in the Series A preferred shares of Hota (USA) are accounted for as an available-for-sale financial asset which are stated at fair value of nil as at 31 December 2017 and 2016, and the derivative component arising from the conversion right of the Series A preferred shares are accounted for as financial assets at fair value through profit or loss which are stated at fair value of nil as at 31 December 2017 and 2016. The Group's investment in the common shares of Hota (USA) are accounted for as interest in a joint venture. As detailed in the paragraph below, as at 31 December 2016, the Group considered the investment in Series A preferred shares was fully impaired. Accordingly, the decrease in the fair value of the Series A preferred shares of HK$77,791,683 during the year ended 31 December 2016 was offset against the negative interest in the joint venture by the same amount.

The Resources Recycling Business has stopped commercial production since 2014 in view of adverse business environment and operating conditions. Hota (USA) and its subsidiary (the "Hota Group") then became inactive since 2015 and did not generate any income. As at 31 December 2017, Hota Group has unaudited net liabilities of approximately HK$647 million (2016: approximately HK$574 million) and, to the best knowledge of the directors of the Company, has no concrete plan to resume the Resources Recycling Business in the foreseeable future. In 2016, the Group has engaged an independent and professionally qualified valuer to estimate the fair value of certain major assets of the Hota Group and the estimated fair value was lower than its unaudited net carrying amount at the end of the reporting period. Accordingly, the Group considered the entire investment was fully impaired as at 31 December 2017 and 2016.

During the year ended 31 December 2016, the directors considered the decline in the fair value of the available-for-sale investment was significant and prolonged and the cumulative impairment loss of HK$11,739,442 recognised in the available-for-sale financial assets revaluation reserve was reclassified from equity to profit or loss for the year ended 31 December 2016.

The Group has not incurred any contingent liabilities or other commitments relating to its investment in the joint venture. No share of losses of Hota Group is recognised by the Group for the years ended 31 December 2017 and 2016. The Group has not recognised losses amounting to HK$22,084,549 for the year ended 31 December 2017 (2016: HK$22,319,926) for the joint venture.

Details of Hota (USA) and its principal subsidiary as at 31 December 2017 are as follows:

Name of company	**Place of establishment**	**Particulars of paid-up registered capital**	**Percentage of ownership interest**	**Principal activities**
Hota (USA)	USA	Common shares USD34	35.29% (2016: 35.29%)	Investment holding
		Series A preferred shares USD12,000,000	83.33% (2016: 83.33%)	
Hota Auto Recycling Corporation ("HARC")* (張家港永峰泰環保科技有限公司)	The PRC	USD20,000,000		Inactive

* Wholly-foreign-owned enterprise held by Hota (USA)

13. TRADE AND OTHER RECEIVABLES

	2017	2016
	HK$	*HK$*
Trade receivables	**111,988,394**	97,108,376
Less: Provision for impairment of trade receivables	**–**	–
Trade receivables, net *(note (a))*	**111,988,394**	97,108,376
Other receivables, deposits and prepayments *(note (b))*	**119,795,919**	27,641,204
Less: Provision for impairment of other receivables and prepayments	**(1,736,026)**	(1,095,000)
Other receivables, net *(note (b))*	**118,059,893**	26,546,204
	230,048,287	123,654,580

Notes:

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

	2017	2016
	HK$	*HK$*
0 – 30 days	**104,136,456**	5,755,567
31 – 90 days	**6,640,809**	10,178,476
Over 90 days	**1,211,129**	81,174,333
	111,988,394	97,108,376

During the year ended 31 December 2017, management has determined trade receivables of HK$393,634 (2016: HK$3,241,722) as individually impaired and has been written off as bad debts.

At each reporting date, the Group reviews trade receivables for evidence of impairment on both an individual and collective basis. As at 31 December 2017, the Group has determined trade receivables of HK$393,634 (2016: HK$3,241,722) which were aged over 90 days have been identified as impaired. Based on this assessment, impairment loss of HK$393,634 (2016: HK$3,241,722) has been recognised and has been written off as bad debts. The impaired trade receivables are due from customers experiencing financial difficulties that were in default or delinquency of payments.

The ageing analysis of the Group's trade receivables net of impairment provision, based on due date is as follows:

	2017	2016
	HK$	*HK$*
Neither past due nor impaired	**110,405,434**	13,598,078
1 – 30 days past due	**1,042,637**	2,524,366
31 – 90 days past due	**193,693**	642,454
Over 90 days past due	**346,630**	80,343,478
	111,988,394	97,108,376

Trade receivables that were neither past due nor impaired related to a number of customers for whom there was no recent history of default. Trade receivables that were past due but not impaired related to a number of customers that have a good track record with the Group. Based on past experience, the management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

(b) The movement in the provision for impairment of other receivables and prepayments is as follows:

	2017	2016
	HK$	*HK$*
Balance at the beginning of the year	**1,095,000**	27,758,100
Written off during the year	**–**	(27,758,100)
Impairment loss recognised	**641,026**	1,095,000
Balance at the end of the year	**1,736,026**	1,095,000

During the year ended 31 December 2017, the Group has determined other receivables of HK$641,026 (2016: HK$1,095,000) as individually impaired. Based on this assessment, provision for impairment loss has been recognised accordingly. The Group did not hold any collateral as security or other credit enhancements over the impaired other receivables, whether determined on an individual or collective basis.

14. AMOUNT DUE FROM A JOINT VENTURE

As at 31 December 2017 and 2016, amounts due comprise of loans to and interest receivables from Hota (USA) and HARC (collectively the "Loans") which are unsecured, repayable on demand and interest-bearing 10% per annum (2016: 10%) and 19% per annum (2016: 19%), respectively.

In 2011, the Group entered into a series of loan agreements with the joint venture with terms in relation to a possible capitalisation for the Loans, in case the joint venture failed to repay the Loans together with any interest accrued. With reference to the announcement on 14 March 2014, the Group had requested repayment of the loans due from HARC and had applied to the relevant authorities in Jiangsu, the PRC, for debt confirmation in this respect. Subsequent to 2012 and up to the end of the reporting period, the Group has not received any repayments from the joint venture. The Group ceased to recognise loan interest income since the 3rd quarter of 2016 as the amounts are not considered to be recoverable.

As explained in note 12, Hota Group has been experiencing financial difficulties over the years and became inactive and has no concrete plan to resume its business in the foreseeable future, the Group considered the chance to recover the remaining outstanding balance of the Loans is remote. Based on this assessment, the directors of the Company determined to recognise an impairment loss on the outstanding balances of the amount due of HK$223,020,200 during the year ended 31 December 2016. As at 31 December 2017, the accumulated provision for impairment amounted to HK$375,887,468 (2016: HK$375,887,468). The Group did not hold any collateral over the Loans.

15. TRADE AND OTHER PAYABLES

	2017	2016
	HK$	*HK$*
Trade payables	**126,816,719**	22,407,191
Other payables and accrual	**13,130,311**	14,714,602
	139,947,030	37,121,793

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

	2017	2016
	HK$	*HK$*
0 – 30 days	**103,700,436**	2,721,614
31 – 60 days	**1,908,810**	3,675,517
61 – 90 days	**1,185,752**	870,818
Over 90 days	**20,021,721**	15,139,242
	126,816,719	22,407,191

16. DISPOSAL OF SUBSIDIARIES IN 2016

On 16 December 2016, the Group has completed the disposal of its entire interest in Macro Creation Holdings Limited and its subsidiaries ("Macro Creation Group") to an independent third party at a consideration of HK$1,000,000. Macro Creation Group is engaged in module packaging and testing services business.

The major classes of assets and liabilities of the Macro Creation Group as at 16 December 2016, are as follows:

	HK$
Property, plant and equipment	10,356,138
Prepayment for acquisition of property, plant and equipment	320,320
Inventories	1,389,680
Trade and other receivables	4,898,430
Cash and cash equivalents	1,433,966
Trade and other payables	(20,235,657)
Bank borrowings	(4,916,130)
Net liabilities disposed of	(6,753,253)

	2016
	HK$
Gain on disposal of subsidiaries:	
Cash consideration receivable included in other receivables	1,000,000
Net liabilities disposed of	6,753,253
Expenses in connection with the disposal	(1,000,000)
Cumulated translation reserve in respect of the net assets of the subsidiaries	1,636,158
Gain on disposal of subsidiaries *(note 6)*	8,389,411

17. SIGNIFICANT RELATED PARTY TRANSACTIONS

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

(a) Transaction with related parties

Related party relationship	**Type of transaction**	**2017** *HK$*	2016 *HK$*
Hota Group, a joint venture	Interest income on amount due from a joint venture[1]	**–**	17,992,336
	Fees earned from providing financial and management consultancy service[2]	**–**	2,941,130
Mr. Tsai Chi Yuan ("Mr. Tsai"), the substantial shareholder of the Company	Consultancy fee expense	**1,320,000**	660,000
	Salaries and allowances	**242,151**	235,614
	Rental expense	**266,972**	254,049
	Interest expense[3]	**15,051**	–
Mr. Wang Jia Hua, an executive director of the Company[4]	Interest expense	**–**	29,705
上海建州石化有限公司 ("Shanghai Jianzhou")[5]	Purchase of petro-chemical products	**–**	858,533
	Sales of petro-chemical products	**–**	76,613,487

1. Particulars of the Group's balance with the joint venture as a result of the above transaction is disclosed in note 14.

2. According to the loan agreements with Hota (USA), financial and management service fee will be charged to Hota (USA) at 5% per annum on the outstanding principal balance.

3. The Company borrowed a loan with Golden Dice Co., Ltd ("Golden Dice") during the year ended 31 December 2017, one of the substantial shareholders of the Company in which Mr. Tsai has 100% beneficial interest in Golden Dice. The loan is unsecured and interest bearing at 6% per annum and repayable on demand. The Company has fully repaid the loan during the year 2017.

4. Mr. Wang Jia Hua, an executive director of the Company from 5 January 2016 to 4 January 2017. For more details, please refer to the Company's announcement published on 6 January 2017.

5. Mr. Zhang Zixiang, a director of a major subsidiary of the Group prior to 15 March 2016, is the beneficial shareholder of Shanghai Jianzhou.

(b) Compensation of key management personnel

Members of key management during the year comprised only the executive directors whose remunerations are:

	2017 *HK$*	2016 *HK$*
Salaries, wages and other benefits	**1,867,769**	2,320,814
Contributions to defined contribution retirement plans	**94,438**	102,398
	1,962,207	2,423,212

EXTRACT OF INDEPENDENT AUDITOR'S REPORT ON THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

The following is the extract of the independent auditor's report from Grant Thornton Hong Kong Limited, the external auditor of the Company on the Group's consolidated financial statements for the year ended 31 December 2017:

Qualified Opinion

We have audited the consolidated financial statements of Phoenitron Holdings Limited (the "Company") and its subsidiaries (together, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Qualified Opinion

Prior year's audit scope limitation affecting comparative figures

As disclosed in the consolidated financial statements, the Group has reclassified cumulative fair value loss on the preferred shares of Hota (USA) Holding Corp. ("Hota (USA)") from the equity to profit or loss of HK$11,739,442 and made impairment provision of HK$223,020,200 for the amount due from the joint venture during the year ended 31 December 2016. As detailed in our auditor's report dated 22 March 2017, we were unable to obtain sufficient appropriate audit evidence in relation to the impairment assessment of the Group's interest in and the amount due from a joint venture and the preferred shares of Hota (USA) as at 1 January 2016 and we were unable to determine whether any adjustments as to its impairment loss as mentioned above recognised during the year ended 31 December 2016 were necessary, which may have significant impact on the Group's financial position as at 1 January 2016 and on the Group's financial performance and the elements making up the consolidated statement of cash flows of the Group for the year ended 31 December 2016. Our audit opinion on the consolidated financial statements of the Group for the year ended 31 December 2016 was modified accordingly.

Our audit opinion on the consolidated financial statements for the year ended 31 December 2017 is also modified because of the possible effects of the abovementioned matter on the comparability of the corresponding figures in the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of cash flows.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue

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, Shanghai Phoenitron continued to conduct petro-chemical products sales, however, due to the volatile and falling crude oil price (in particular, during the first half of 2017), the Group has adopted a conservative approach which includes delaying the execution of some contracts and avoid entering into some short-term, potentially loss-making contracts. As a result, revenue recorded during the reporting period amounted to approximately HK$334.7 million only, representing a decrease of approximately HK$1,976.8 million, or 85.5%, as compared to the corresponding period in 2016 of approximately HK$2,311.5 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 the end of 2016 (revenue for 2016: approximately HK$21.2 million).

During the Reporting Period, the Group's revenue generated from the SIM card manufacturing business amounted to approximately HK$46.1 million, down by approximately HK$17.4 million or 27.4% as compared to the corresponding period in 2016 of approximately HK$63.5 million.

Provision of financial and management consultancy services

No revenue was generated from the provision of financial and management consultancy services during the Reporting Period (2016: approximately HK$2.94 million) as no such income had been charged to Hota Group since the third quarter of 2016.

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$334.2 million, representing a decrease of approximately HK$1,972.2 million, or 85.5%, as compared to the corresponding period in 2016 of approximately HK$2,306.4 million. Gross profit dropped from approximately HK$5.1 million for the corresponding period in 2016 to approximately HK$0.5 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 and gross loss for 2016: approximately HK$31.3 million and approximately HK$10.1 million respectively).

During the Reporting Period, cost of sales incurred for the SIM card manufacturing business amounted to approximately HK$35.3 million, down by approximately HK$8.3 million or 19.0% as compared to the corresponding period in 2016 of approximately HK$43.6 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$10.8 million, representing a decrease of approximately HK$9.1 million, or 45.7%, as compared to the corresponding period in 2016 of approximately HK$19.9 million.

Due to the above-mentioned, gross profit of the Group dropped by approximately HK$6.5 million or 36.5%, from the corresponding period in 2016 of approximately HK$17.8 million, to approximately HK$11.3 million.

Other Income

Other income of approximately HK$0.2 million (2016: approximately HK$19.0 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 Group 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$0.5 million (2016: gains of approximately HK$10.2 million) which was attributable to the exchange losses arising from foreign currency-based transactions of approximately HK$0.8 million but partially offset by a gain on disposal of certain fixed assets in relation to the Shenzhen SIM card plant of approximately HK$0.3 million.

Selling and Distribution Costs

During the Reporting Period, selling and distribution costs amounted to approximately HK$4.1 million, representing a drop of approximately HK$3.4 million, or 45.3%, as compared to the corresponding period in 2016 of approximately HK$7.5 million. The decrease was mainly due to the decrease in expenses like transportation costs, freight charge and staff costs by a total of approximately HK$1.7 million that were attributable to the dropped in sales of each of the petro-chemical products segment and the overseas SIM card segment, and also partly due to the drop in various selling expenses of a total of about HK$1.7 million resulted from the disposal of Beijing module packaging and testing service plant by end of 2016 and the closure of the PRC SIM card plant.

Administrative Expenses

Administrative expenses recorded a decrease of approximately HK$10.1 million, or 28.4% during the Reporting Period, from approximately HK$35.6 million for the corresponding period in 2016, to approximately HK$25.5 million. The decrease was largely due to (i) the decline in various general administrative expenses of a total of approximately HK$9.0 million resulting from the closing of the Beijing SIM card plant since early 2016 and the disposal of Beijing module packaging and testing service plant by end of 2016; and (ii) the decreases in various administrative expenses of approximately HK$1.6 million that were attributable to the sales decline in the petrochemical products segment.

Impairment Loss on Other Receivables and Prepayments

During the Reporting Period, an impairment loss on other receivables and prepayments of approximately HK$0.64 million in respect of certain other receivables and prepayment attributable to the sales of scrap metals business segment was recognised (2016: approximately HK$1.1 million).

Finance Costs

During the Reporting Period, the Group's finance costs amounted to approximately HK$0.79 million (2016: approximately HK$0.65 million). The increase was due to the average borrowings level (other than from banks) increased on year-on-year basis and that the interest rates charged on such borrowings were higher.

Income Tax Credit/(Expense)

During the period under review, a net income tax credit amounted to approximately HK$0.01 million was recognised (2016: income tax expense of approximately HK$0.88 million).

As a result of the foregoing, loss attributable to owners of the Company the Reporting Period amounted to approximately HK$19.8 million (2016: approximately HK$234.0 million).

LIQUIDITY AND FINANCIAL RESOURCES/CAPITAL STRUCTURE

During the year under review, the Group financed its business operations and investments with cash revenue generated from operating activities, proceeds from subscription of new shares, bank loans and other borrowings. As at 31 December 2017, the Group had cash and bank balances and pledged bank deposits of approximately HK$4.5 million (31 December 2016: approximately HK$4.2 million), secured bank loans and other borrowings of approximately HK$13.9 million (31 December 2016: approximately HK$12.5 million).

As at 31 December 2017, the Group had current assets of approximately HK$237.1 million (2016: approximately HK$129.2 million) and current liabilities of approximately HK$153.9 million (2016: approximately HK$49.6 million). The current ratio, expressed as current assets over current liabilities, was 1.5 (2016: 2.6).

EMPLOYEE INFORMATION

As at 31 December 2017, the Group employed a total of 164 employees (2016: 204 employees), of which 16 were located in Hong Kong and the rest were located in the PRC and Taiwan. Employee cost, including directors' remuneration, was approximately HK$22.7 million (2016: approximately HK$31.5 million) for the year under review. The Group remunerates its employees based on their performance, experience and the prevailing industry practice. In addition to basic salaries and participation in mandatory provident fund scheme, staff benefits include medical scheme and share options.

SIGNIFICANT INVESTMENTS

There was no other significant investments for the year ended 31 December 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 year ended 31 December 2017.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

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

CHARGE ON GROUP ASSETS

At 31 December 2017, bank deposits of approximately HK$2.2 million was pledged by a Company's subsidiary as collaterals to secure general banking facilities granted to the Group (2016: approximately HK$9.3 thousand).

GEARING RATIO

The gearing ratio of the Group, expressed as a percentage of total borrowings to total assets of the Group, was 5.6% as at 31 December 2017 (2016: 8.9%).

FINAL DIVIDEND

The Directors does not recommend any payment of a final dividend for the year ended 31 December 2017 (2016: nil).

COMPETING INTERESTS

As at 31 December 2017, none of the directors or the management shareholders or any of its respective associates (as defined under the GEM Listing Rules) of the Company had any interest in a business that competed or might compete with the business of the Group directly or indirectly.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control and risk management systems 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 and four audit committee meetings were held during the financial year 2017.

The Group's audited results for the year ended 31 December 2017 have been reviewed by the audit committee.

SCOPE OF WORK OF GRANT THORNTON HONG KONG LIMITED

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2017 have been agreed by the Company's auditors, Grant Thornton Hong Kong Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Grant Thornton Hong Kong Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Grant Thornton Hong Kong Limited on the preliminary announcement.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The corporate governance principles of the Company emphasise a quality Board, sound internal controls, transparency and accountability to all shareholders. Throughout the year of 2017, the Group compiled with the code provisions in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules, except for the code provision A2.1 stipulated in the following paragraphs.

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

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

- The size of the Group is still relatively small and thus not justified in separating the roles of chairman and CEO; and

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

Thus, the Board considers that the current structure of vesting the roles of Chairman and CEO in the same person will not impair the balance of power and authority between the Board and the management of the Company.

EVENT AFTER REPORTING PERIOD

On 3 January 2018, 37,629,250 options were granted by the Company to certain directors and employees of the Company under the New Share Option Scheme with estimated total fair value of approximately HK$3,339,000. The exercise price of the share options granted is HK$0.2 per share at the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five consecutive trading days immediate preceding the date of grant; and (iii) the nominal value of a share. The share options are valid for a period of 10 years and fully vested at the date of grant.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities during the year.

ANNUAL GENERAL MEETING

The annual general meeting (the "AGM") of the shareholders of the Company will be held at 10:00 a.m., on Wednesday, 9 May 2018, at Unit 302, 3rd Floor, Seapower Centre, 73 Lei Muk Road, Kwai Chung, New Territories, Hong Kong and the notice of AGM will be published and dispatched to the shareholders in the manner as required by the GEM Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain the entitlements to attend the AGM, the register of members of the Company will be closed from Friday, 4 May 2018 to Wednesday, 9 May 2018 (both dates inclusive) during which period no transfer of shares of the Company will be registered. In order to qualify for attending the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Thursday, 3 May 2018.

By order of the Board
Lily Wu
Chairman

Hong Kong, 20 March 2018

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

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