PHOENITRON

Phoenitron Holdings Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8066)

SEEING FURTHER GOING FORWARD

Annual Report 2018

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This report, 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 report 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 report misleading.

CONTENTS

Corporate Information	2
Financial Highlights	3
Chairman's Statement	4
Management Discussion and Analysis	6
Corporate Governance Report	11
Profiles of Directors and Senior Management	19
Directors' Report	21
Independent Auditor's Report	27
Consolidated Statement of Profit or Loss and Other Comprehensive Income	30
Consolidated Statement of Financial Position	31
Consolidated Statement of Changes in Equity	32
Consolidated Statement of Cash Flows	33
Notes to the Consolidated Financial Statements	35
Financial Summary	100

Corporate Information

DIRECTORS

Executive Directors
Lily Wu *(Chairman and Chief Executive Officer)*
Chang Wei Wen
Yang Meng Hsiu

Independent non-executive Directors
Chan Siu Wing, Raymond
Leung Ka Kui, Johnny
Wong Ka Wai, Jeanne

COMPLIANCE OFFICER

Lily Wu

QUALIFIED ACCOUNTANT

Lau Ka Chung *(FCPA, FCS)*

COMPANY SECRETARY

Lau Ka Chung *(FCPA, FCS)*

AUTHORISED REPRESENTATIVES

Lily Wu
Chang Wei Wen

AUDIT COMMITTEE

Wong Ka Wai, Jeanne *(Chairman)*
Chan Siu Wing, Raymond
Leung Ka Kui, Johnny

REMUNERATION COMMITTEE

Leung Ka Kui, Johnny *(Chairman)*
Chang Wei Wen
Chan Siu Wing, Raymond
Lily Wu
Wong Ka Wai, Jeanne

NOMINATION COMMITTEE

Lily Wu *(Chairman)*
Chan Siu Wing, Raymond
Leung Ka Kui, Johnny
Wong Ka Wai, Jeanne
Yang Meng Hsiu

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 302, Seapower Centre
73 Lei Muk Road
Kwai Chung
New Territories
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
3rd Floor, Royal Bank House
24 Shedden Road, PO Box 1586
Grand Cayman KY1-1110, Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKER

Nanyang Commercial Bank Limited

AUDITOR

Grant Thornton Hong Kong Limited

WEBSITE ADDRESS

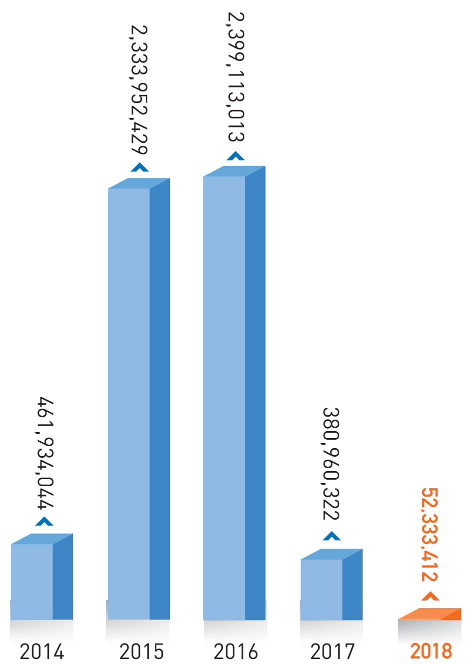
www.phoenitron.com

STOCK CODE

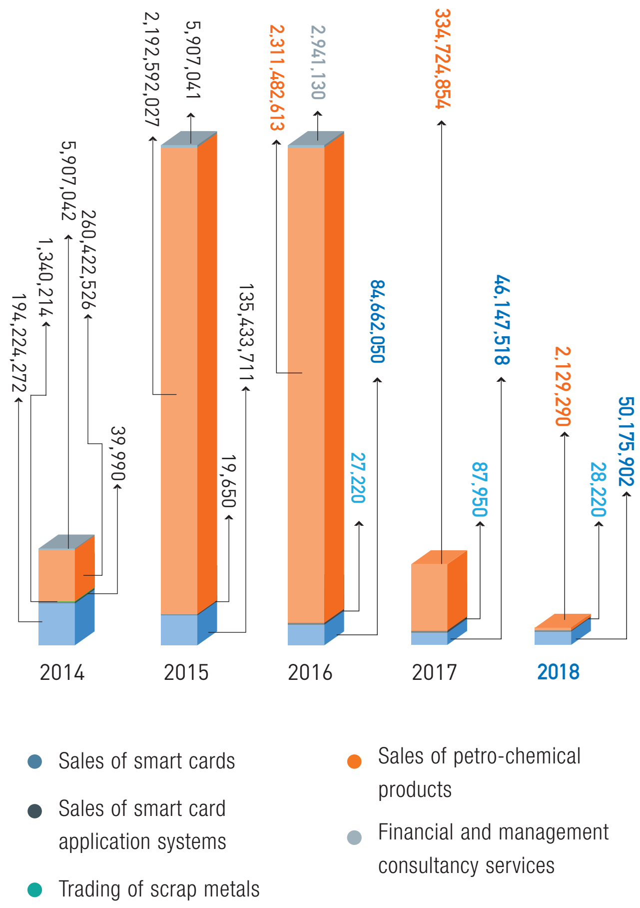
8066

Financial Highlights

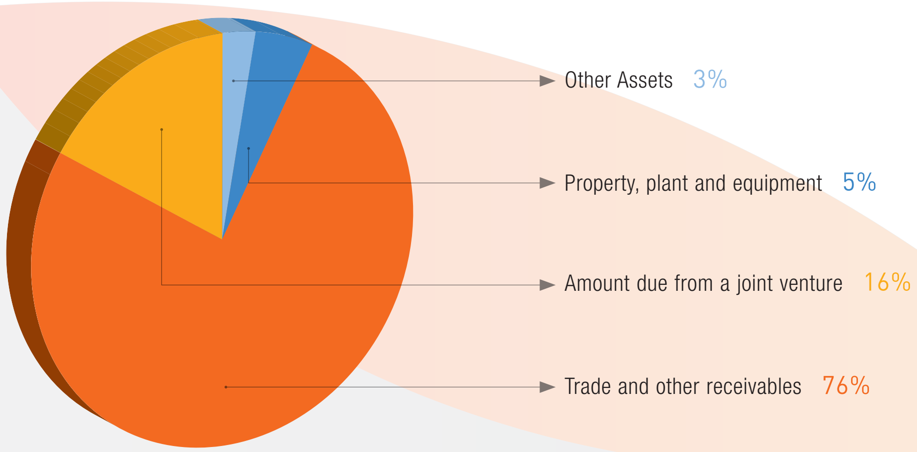
TURNOVER



TURNOVER BY SEGMENTS



TOTAL ASSETS AT 31 DECEMBER 2018



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 2018 (the "Reporting Period").

RESULTS

For the year ended 31 December 2018, the Company recorded a consolidated revenue of approximately HK$52,333,000 (2017: approximately HK$380,960,000) and profit attributable to owners of the Company of approximately HK$1,615,000 (2017: loss of approximately HK$19,770,000).

DIVIDEND

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

BUSINESS AND OPERATION REVIEW

During the Reporting Period, the Group is principally engaged in the contract manufacturing and sales of smart cards, and the sales of petro-chemical products.

Contract manufacturing and sales of smart cards

Throughout the Reporting Period, the Group's contract manufacturing and sales of SIM cards business faced a difficult business environment (especially in the first half of the year), which drove us to implement cost cutting and improved operating efficiency measures which put us in a better position as the market showed signs of recovery and improvement in the second half of the year (resulting in a profitable last quarter).

During the Reporting Period, we focused on solidifying our relationship with the existing customers and at the same time expanding the client base and overall market share. By offering the best-quality, value-added services, and convenient and speedy deliveries, we were successfully able to secure new customers in 2018, which will lead to new customer orders in 2019, diversifying the client base and improving the revenue and profit stability.

Apart from the existing SIM card services, we will also be providing certain higher-value-added card services (e.g. machine-to-machine (M2M) smartcard related business) in the coming year.

Financially, due to the losses in the first half of the year, a net loss of approximately HK$4.6 million (2017: approximately HK$7.8 million) was recorded for the SIM card market segment 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$2.1 million (2017: approximately HK$334.7 million) during the Reporting Period.

Given the volatility of global oil prices during the Reporting Period, and having considered the risk exposures and rewards, we adopted a conservative approach towards the petro-chemical products business. As the running of a successful business in this field requires more resources including funds and manpower, we are currently reviewing this area of business and shall take action as appropriate.

Chairman's Statement

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.

FINANCING OVERVIEW

During the Reporting Period, the Company had entered into separate subscription agreements with four subscribers (the "Subscribers"), namely, Mr. Lam Chi Kwong, Stephen, Ms. Lau Cheuk Lam, Sammi, Mr. Liu Hui and Mr. Tam Yui Man, 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") and with the aggregate nominal value of HK$15.0 million. The market price on 16 April 2018 (being the date on which the terms of the Subscriptions were fixed) was HK$0.148. Completion of the Subscriptions took place on 26 April 2018. The net subscription price, after deducting relevant expenses of approximately HK$25,000, is HK$0.1997 per subscription share. The net proceeds of approximately HK$15.0 million has been applied (as intended) for (i) general working capital of the Group (including SIM card business) of approximately HK$10.17 million and (ii) repayment of certain loans of a total of approximately HK$4.8 million.

As mentioned in previous announcements of the Company, more working capital is needed to finance the Group's SIM card business and operations and for general working capital of the Group. The Directors consider that the Subscriptions represent opportunities to raise additional funding for the Group's business operations and it will also strengthen the capital base and financial position for the Group (by lowering the gearing ratio and reducing the finance costs). In addition, the Directors consider that the Subscriptions are 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 16 April 2018 and 26 April 2018.

PROSPECTS

Looking forward, we expect the Group will gradually move back towards profitability in 2019. The Board will place greater emphasis on exploring or developing new areas of 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 by increasing its market share, 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 2018. 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, 26 March 2019

Management Discussion and Analysis

FINANCIAL REVIEW

During the Reporting Period, the Group's financial result was principally derived from the contract manufacturing and sales of smart cards and the sales of petro-chemical products, though management is also actively discussing and exploring new areas of business development for further growth.

Contract manufacturing and sales of smart cards

During the Reporting Period, the Group's revenue generated from the SIM card manufacturing business amounted to approximately HK$50.2 million, an increase of approximately HK$4.1 million or 8.9% as compared to the corresponding period in 2017 of approximately HK$46.1 million.

Sales of petro-chemical products

Having taken into account the volatility of cruel oil price, the risks in the past and the current global economies, sales of petro-chemical products was conducted by Shanghai Renzhong on a limited scale only, which led to a substantial drop in revenue on a year-on-year basis. During the Reporting Period, the Group recorded revenue derived from this segment of approximately HK$2.1 million (2017: HK$334.7 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 (2017: NIL).

Cost of Sales ("COS") and Gross Profit

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

Contract manufacturing and sales of smart cards

During the Reporting Period, cost of sales incurred for the SIM card manufacturing business amounted to approximately HK$38.4 million, up approximately HK$3.1 million or 8.8% as compared to the corresponding period in 2017 of approximately HK$35.3 million. The increase in COS was in line with the corresponding increase in revenue year-on-year. As a result, gross profit generated from the SIM card manufacturing business segment amounted to approximately HK$11.8 million, representing an increase of approximately HK$1.0 million, or 9.3%, as compared to the corresponding period in 2017 of approximately HK$10.8 million.

Sales of petro-chemical products

During the Reporting Period, COS in relation to the sales of petro-chemical products amounted to approximately HK$2.1 million (2017: HK$334.2 million).

Due to the above-mentioned, gross profit of the Group increased slightly by approximately HK$0.4 million or 3.5%, from the corresponding period in 2017 of approximately HK$11.3 million, to approximately HK$11.7 million.

Other Income

Other income of approximately HK$4.4 million (2017: approximately HK$0.2 million) was mainly comprised of a recovery of bad debts from the PRC SIM card segment of approximately HK$3.4 million (2017: nil), sundry income and government grants of approximately HK$0.9 million (2017: HK$0.2 million) and the recognition of a decrease in expected credit loss of approximately HK$0.1 million (2017: nil) due to the adoption of HKFRS 9.

Management Discussion and Analysis

Other Gains/(Losses), Net

During the Reporting Period, other gains amounted to approximately HK$0.6 million (2017: losses of approximately HK$0.5 million) which was attributable to the exchange gains arising from foreign currency based transactions of approximately HK$0.5 million (2017: losses of approximately HK$0.8 million) and a gain on disposal of certain fixed assets of approximately HK$0.1 million (2017: HK$0.3 million).

Reversal of Impairment Loss on Amount due from a Joint Venture

As disclosed in note 24 to the consolidated financial statements, a reversal of impairment loss on amount due from HARC of approximately HK$23.2 million was recognised during the Reporting Period (2017: nil).

Selling and Distribution Costs

During the Reporting Period, selling and distribution costs amounted to approximately HK$3.5 million, representing a drop of approximately HK$0.6 million, or 14.6%, as compared to the corresponding period in 2017 of approximately HK$4.1 million. The decrease was mainly due to the fact that certain expenses (for examples, salary payment and freight charges) for the PRC SIM card plant no longer recurred upon its closure.

Administrative Expenses

Administrative expenses recorded an increase of approximately HK$7.9 million, or 30.9% during the Reporting Period, from approximately HK$25.5 million for the corresponding period in 2017, to approximately HK$33.4 million. The increase was largely attributable to (i) a share-based payment expense with a fair value of approximately HK$3.3 million was recognised to account for the share options granted to the directors and certain employees of the Group in 2018; (ii) the increase in various legal and professional fees of approximately HK$3.2 million that were largely attributable to the legal fees of approximately HK$2.3 million incurred in connection with the collection of payment from HARC, as well as certain advisory fee of approximately HK$0.5 million incurred by SIM card segment; and (iii) the incurrence of research and development expenses of approximately HK$1.4 million.

Impairment Loss on Other Receivables and Prepayments

During the Reporting Period, an impairment loss on other receivables and prepayments of approximately HK$0.23 million in respect of certain other receivables and prepayment was recognised (2017: approximately HK$0.64 million).

Finance Costs

During the Reporting Period, the Group's finance costs amounted to approximately HK$1.1 million (2017: approximately HK$0.8 million). The increase was due to the interest rates charged on such borrowings were higher.

Income Tax (Expense)/Credit

During the period under review, a net income tax expense of approximately HK$0.24 million, which is primarily attributable to the Hong Kong Profits Tax based on the estimated assessable profits arising from the SIM card business, was provided for (2017: income tax credit of approximately HK$0.01 million).

Non-controlling Interest

During the period under review, losses attributable to the non-controlling interests amounted to approximately HK$0.20 million (2017: HK$0.17 million).

As a result of the foregoing, profit attributable to owners of the Company for the Reporting Period amounted to approximately HK$1.6 million (2017: loss of approximately HK$19.8 million).

Management Discussion and Analysis

THE GROUP'S RESPONSE TO THE BASIS OF DISCLAIMER OPINION

Background of and the reason for entering into Agreement A

At 10 December 2018, Shanghai Phoenitron has outstanding trade receivables due from the Shanghai Customer of RMB84,744,000 (equivalent to approximately HK$96,300,000). Shanghai Customer is known as a subsidiary of a stated owned company in the PRC while the Petroleum Company has good trading records with Shanghai Phoenitron for the past years. Pursuant to the joint venture contract ("JV Contract") entered into between Phoenitron HK and Shanghai Dongfu on 2014, Mr. Sun, who holds 25% of equity interest in Shanghai Phoenitron, is responsible for the operations and the business dealings of Shanghai Phoenitron. Since the goods that Shanghai Phoenitron sold to the Shanghai Customer was ultimately sold to the Petroleum Company by the Shanghai Customer, the entering into of Agreement A, which enables Shanghai Phoenitron to collect Other Receivables from the Petroleum Company and with full recourse if the Petroleum Company failed to make full settlement to Shanghai Phoenitron (the arrangement is legally binding based on the legal opinion issued by a PRC lawyer), increase the probability of collecting back the receivables.

Background of and the reason for entering into Agreement B

Shanghai Phoenitron was formed and established Shanghai Phoenitron in Shanghai, the PRC in 2014. Pursuant to the JV Contract, Shanghai Phoenitron is owned as to 75% and 25% by Phoenitron HK and Shanghai Dongfu respectively. The purpose of Shanghai Phoenitron is to carry out the Project involving the setting up of natural gas stations in Yangtze River Delta and other petrochemical related business.

It was further agreed in the JV Contract that Shanghai Dongfu (who was owned by Mr. Sun and whose shareholding was transferred to Mr. Sun in 2017 and Mr. Sun agrees to assume all obligations and duties of Shanghai Dongfu as set out in the JV Contract) should meet certain performance indexes including but not limit to the operating scale and profit target in respect of LNG business of Shanghai Phoenitron as set out in the JV Contract. Unfortunately, both failed to achieve the targets, hence Phoenitron Holding's management believes that it is in the best interest of Phoenitron Holdings shareholders to pull back part of its investment in Shanghai Phoenitron and invest in other profitable businesses/projects if such opportunities arise. During the year 2018, there were on-going discussions between the Company and Mr. Sun on the downsizing of the business and operating scale of Shanghai Phoenitron, and both parties agreed that Shanghai Phoenitron should apply for the capital reduction of RMB65,000,000 (out of RMB80,000,000 of registered and paid-up capital) in the second half of 2018 (the application was approved by the relevant government authority on 17 December 2018).

On 20 December 2018, Shanghai Phoenitron, the Petroleum Company, Phoenitron HK and Mr. Sun entered into an Agreement B in which (i) Phoenitron HK and Mr. Sun have agreed to assume all rights and benefits of part of the Petroleum Company Receivables of RMB65,000,000 (equivalent to approximately HK$73,863,636) as settlement of the share reduction of Shanghai Phoenitron as mentioned above (the compliance of the agreement with relevant regulations has been confirmed by a PRC lawyer); and (ii) Shanghai Phoenitron and the Petroleum Company have agreed to offset the trade payables to the Petroleum Company of RMB307,600 (equivalent to approximately HK$349,546) against other receivables from the Petroleum Company. Phoenitron Holdings management considers the above transaction is justified based on the fact that (i) in the consolidated accounts of the Company, the amount due from the Petroleum Company immediately decreased by RMB16,250,000 (equivalent to approximately HK$18,465,909) which was taken up by Mr. Sun as settlement of the pro-rata return of capital, the Group's total other receivables from the Petroleum Company decreased to RMB68,186,400 (equivalent to approximately HK$77,484,545) as at 31 December 2018; (ii) instead of waiting for the settlement by the Petroleum Company or the Shanghai Customer, the assumption of all rights and benefits of RMB48,750,000 (equivalent to approximately HK$55,397,727) by Phoenitron HK, which is a company incorporated in Hong Kong and thereafter can directly exercise the rights of the claims, provides additional flexibility for the Group to carry out diversified solutions for collecting back the money (including but not limit to the assignment of debt), and is much faster than passively waiting for the settlement to Shanghai Phoenitron, or than Shanghai Phoenitron to conduct related recourse.

As advised by the PRC lawyer, the settlement arrangement for Agreement B is legal and valid.

Management Discussion and Analysis

PROPOSED PLAN AFTER EXECUTION OF AGREEMENT B

In view of the disclaimer opinion regarding the recoverability of other receivables and other related matters for the year ended 31 December 2018, after the discussion with the audit committee, the Board and the management of the Company, the following measures have been taken or is planned to be taken to resolve:

a. in respect of the other receivable of RMB48,750,000, the Company is currently in negotiation with a potential buyer, who had good record with the Company for entering into transaction of similar nature, for the possible assignment or transfer (the "Possible Assignment"). An earnest money of approximately HK$2,700,000 has also been received from this potential buyer on 21 March 2019 and formal discussion will soon take place. The Board wishes to emphasize that no binding agreement in relation to the Possible Assignment has been entered into as at the date of this report. As such, the Possible Assignment may or may not proceed. If the Possible Assignment materialises, it may constitute a notifiable transaction on the part of the Company. Further announcement in respect of the Possible Assignment will be made by the Company in the event when any formal agreement has been signed.

   Shareholders and investors are urged to exercise caution when dealing in the securities of the Company.

b. in respect of the remaining balance of RMB19,436,400 that is recognised in the books of Shanghai Phoenitron as other receivables from the Petroleum Company, the Company is currently reviewing all possible alternatives including but not limit to the disposal of Shanghai Phoenitron or applying for further capital reduction, or recourse to claims in a direct or indirect manner.

Due to staff turnover caused by the reduction of capital in Shanghai Phoenitron, the Group was unable to make effective arrangements to assist the auditor for account review in a timely manner. In the future similar such situations, the Group is committed to avoid such a similar problem.

The Board also wish to point out that, other than the matters described above and in the Independent Auditor's Report, there was no other significant matters reported by the auditor on other business segments of the Group (such as SIM card segment).

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 2018, the Group had cash and bank balances of approximately HK$0.8 million (2017: approximately HK$4.5 million), other borrowings of approximately HK$6.5 million (2017: secured bank loans and other borrowings of approximately HK$13.9 million).

As at 31 December 2018, the Group had current assets of approximately HK$132.8 million (2017: approximately HK$237.1 million) and current liabilities of approximately HK$52.3 million (2017: approximately HK$153.9 million). The current ratio, expressed as current assets over current liabilities, was 2.5 (2017: 1.5).

EMPLOYEE INFORMATION

As at 31 December 2018, the Group employed a total of 141 employees (2017: 164 employees), of which 14 were located in Hong Kong and the rest were located in the PRC and Taiwan. Employee cost, including directors' remuneration, was approximately HK$25.4 million (2017: approximately HK$22.7 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.

Management Discussion and Analysis

SIGNIFICANT INVESTMENTS

There was no other significant investments for the year ended 31 December 2018.

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 2018.

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 2018, there is no charge on assets of the Group (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).

GEARING RATIO

The gearing ratio of the Group, expressed as a percentage of total borrowings to total assets of the Group, was 4.6% as at 31 December 2018 (2017: 5.6%).

FINAL DIVIDEND

The Directors does not recommend any payment of a final dividend for the year ended 31 December 2018 (2017: nil).

COMPETING INTERESTS

As at 31 December 2018, 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.

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, 8 May 2019, at Function Room 1, 11th Floor, L'hotel Nina et Convention Centre, 8 Yeung Uk Road, Tsuen Wan, New Territories, Hong Kong and the notice of AGM will be published and dispatched to the shareholders in the manner as required by the GEM Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain the entitlements to attend the AGM, the register of members of the Company will be closed from Friday, 3 May 2019 to Wednesday, 8 May 2019 (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, 2 May 2019.

Corporate Governance Report

The Board is pleased to present this Corporate Governance Report for the year ended 31 December 2018.

INTRODUCTION

The Board believes that good corporate governance practices are essential for effective management and enhancement of shareholder value and investor confidence. The Company has taken a proactive approach in strengthening corporate governance practices, increasing transparency and sustaining accountability to shareholders through effective internal controls, under the leadership of its experienced and committed Board.

The Company has applied the principles set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 15 to the GEM Listing Rules.

In the opinion of the Board, the Company has complied with all the code provisions set out in the CG Code throughout the year ended 31 December 2018 with the exception of the code provision A.2.1 which requires that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. Details relating to the foregoing deviation are summarised below.

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 of all Directors, the Directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the year ended 31 December 2018.

BOARD OF DIRECTORS

The Board is responsible for overseeing the management of the business and affairs of the Group with the overriding objective of enhancing share value. With delegating authorities from the Board, management of the Company is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer.

Code provision A.2.1. stipulates that the roles of Chairman and Chief Executive Officer should be separated and should not be performed by the same individual. The division of responsibilities between the Chairman and Chief Executive Officer 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 Chief Executive Officer, 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 Chief Executive Officer on 23 March 2009. The reasons for not splitting the roles of chairman and chief executive officer are (i) the size of the Group is still relatively small and thus not justified in separating the roles of chairman and chief executive officer; and (ii) 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.

The Board considers that the current structure of vesting the roles of Chairman and Chief Executive Officer in the same person will not impair the balance of power and authority between the Board and the management of the Company.

Corporate Governance Report

Board composition

Up to the date of this annual report, the Board comprises six Directors, including three executive Directors and three Independent non-executive Directors. Details of their composition by category are as follows:

Executive Directors
Ms. Lily Wu *(Chairman and Chief Executive Officer)*
Mr. Chang Wei Wen
Mr. Yang Meng Hsiu

Independent non-executive Directors
Mr. Chan Siu Wing, Raymond
Mr. Leung Ka Kui, Johnny
Ms. Wong Ka Wai, Jeanne

Biographical details of Directors are set out on pages 19 to 20 of this annual report.

The Directors, with relevant and sufficient experience and qualifications, have given sufficient time and attention to the affairs of the Group and have exercised due care and fiduciary duties to the significant issues of overall business planning, management and strategic development of the Group.

Board and general meetings

The Board conducts regular scheduled meetings on a quarterly basis. Ad-hoc meetings are convened when circumstances require. During the year ended 31 December 2018, there were five board meetings and one general meetings held. The Directors can attend meetings in person or via telephone conference as permitted under the articles of association of the Company.

Details of individual attendance of all Directors at the board meetings and general meeting are as follows:

Name of Directors	Attendance of Board meetings	Attendance of general meeting
Executive Directors		
Ms. Lily Wu	5/5	1/1
Mr. Chang Wei Wen	5/5	1/1
Mr. Yang Meng Hsiu	5/5	1/1
Independent Non-executive Directors		
Mr. Chan Siu Wing, Raymond	5/5	0/1
Mr. Leung Ka Kui, Johnny	4/5	0/1
Ms. Wong Ka Wai, Jeanne	5/5	0/1

Information of material issues, due notice of meeting and minutes of each Directors' meeting have been sent to each of the Directors for their information, comment and review.

Corporate Governance Report

The Board is responsible to set strategic plans, formulates policies and provides effective oversight over the management on the operational affairs, and members of the Board are individually and collectively accountable to the shareholders of the Company. The management is responsible for the daily operations of the Group. For significant matters that are specifically delegated by the Board, the management must report back to and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group.

Independent non-executive Directors

Each Director is required to keep abreast of his responsibilities as a director of the Company and of the Company's conduct, business activities and development. Given the essential unitary nature of the Board, independent non-executive Director has the same duties of care and skill and fiduciary duties as executive Directors. Independent non-executive Director brings a wide range of business and financial expertise, experience and independent judgment to the Board. Functions of independent non-executive Director include but should not be limited to the following:

i. participating in Board meetings to bring independent judgment;

ii. taking the lead where potential conflict of interests may arise;

iii. serving on the audit, nomination and remuneration committees if invited; and

iv. scrutinizing the Group's performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance.

Pursuant to Rule 5.05 of the GEM Listing Rules, the Board has appointed three independent non-executive Directors, representing half of the Board and all of them have appropriate professional accounting qualifications or related experiences on financial management which is in compliance with Rule 5.05A and 5.05 of the GEM Listing Rules. Currently, there is no specific terms of service for each of the independent non-executive Directors and the appointment may continue thereafter unless and until terminated by either the Company or the independent non-executive Director by giving not less than one month's prior notice in writing and such appointment is subject at all times to the Articles of Association.

The Company strongly supports the principle of Board independence. Mr. Leung Ka Kui, Johnny, Mr. Chan Siu Wing, Raymond and Ms. Wong Ka Wai Jeanne have been serving the Board as independent non-executive Directors for more than nine years and have consistently demonstrated their willingness to exercise independent judgments and provide objective challenges to management. They have actively participated in board meetings and board committee meetings held during the year and have shown themselves able to give constructive and independent advice to the Board over significant issues. Therefore, the Board considers that all of them remain independent, notwithstanding the length of their tenure as independent non-executive Directors. The Board has assessed their independence and considers that all independent non-executive Directors are independent as required under the GEM Listing Rules. All independent non-executive Directors have also confirmed their independence pursuant to Rule 5.09 of the GEM Listing Rules by providing an annual confirmation of their independence.

Corporate Governance Report

Continuous Professional Development

Pursuant to Code Provision A.6.5, which has come into effect from 1 April 2012, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. Up to the date of this report, all Directors have participated in continuous professional development by attending training course or reading relevant materials on the topics related to corporate governance and regulations.

The individual training record of each Director received for the year ended 31 December 2018 is summarised below:

Name of Directors	Attending seminar(s)/ Programme(s)/ relevant materials in relation to the business or Directors' duties
Executive Directors	
Ms. Lily Wu	Yes
Mr. Chang Wei Wen	Yes
Mr. Yang Meng Hsiu	Yes
Independent non-executive Directors	
Mr. Chan Siu Wing, Raymond	Yes
Mr. Leung Ka Kui, Johnny	Yes
Ms. Wong Ka Wai, Jeanne	Yes

All the Directors also understand the importance of continuous professional development and are committed to participating any suitable training or reading relevant materials in order to develop and refresh their knowledge and skills.

BOARD COMMITTEES

Audit committee

The audit committee currently comprises three independent non-executive Directors and is chaired by Ms. Wong Ka Wai, Jeanne. The rest of members are Mr. Leung Ka Kui, Johnny and Mr. Chan Siu Wing, Raymond. At the discretion of the audit committee, executive Directors and/or senior management personnel, overseeing the Group's finance and internal control functions, may be invited to attend meeting. The primary role and function of the audit committee are to review the Company's financial controls, internal control and risk management systems; to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard; to review the Company's financial statements, annual reports, interim reports and quarterly reports, and to provide advice and comment thereon to the Board.

The audit committee held four meetings to review the quarterly, interim and annual results during the year ended 31 December 2018 as well as discussed and reviewed the Group's internal control and audit works with the auditor of the Group. Details of the attendance of the audit committee meetings are as follows:

Members	Attendance
Mr. Leung Ka Kui, Johnny	3/4
Ms. Wong Ka Wai, Jeanne	4/4
Mr. Chan Siu Wing, Raymond	4/4

Corporate Governance Report

The Group's unaudited quarterly and interim results and annual audited results during the year ended 31 December 2018 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

Nomination committee

The nomination committee comprises two executive Directors and three independent non-executive Directors and is chaired by Ms. Lily Wu. The rest of the members are Mr. Chan Siu Wing, Raymond, Mr. Leung Ka Kui, Johnny, Ms. Wong Ka Wai, Jeanne and Mr. Yang Meng Hsiu. The primary role and function of the nomination committee are to review and monitor the structure, size and composition of the Board at least once a year and make recommendations on any proposed changes to the Board to carry out the Company's corporate strategies; to assess the independence of independent non-executive Directors; and to make recommendations to the Board succession planning.

Diversity of the Board

The nomination committee is also responsible for the review of the Board's diversity policy, considering factors including but not limited to gender, age, cultural and educational background, ethnicity, industry experience, professional experience, skills, knowledge and length of service of Board members, and review the measurable objectives that the Board has set for implementing the Board's diversity policy, and monitor the progress on achieving the measurable objectives. With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. All Board appointments will be based on meritocracy, and candidates will be considered against appropriate criteria, having due regard for the benefits of diversity on the Board.

The Nomination Committee had reviewed and is satisfied with the current composition of the Board.

The nomination committee held one meeting during the year ended 31 December 2018. Details of the attendance of the nomination committee meetings are as follows:

Members	Attendance
Ms. Lily Wu	1/1
Mr. Chan Siu Wing, Raymond	1/1
Mr. Leung Ka Kui, Johnny	1/1
Ms. Wong Ka Wai, Jeanne	1/1
Mr. Yang Meng Hsiu	1/1

Remuneration committee

The remuneration committee comprises two executive Directors and three independent non-executive Directors and is chaired by Mr. Leung Ka Kui, Johnny. The rest of the members are Mr. Chan Siu Wing, Raymond, Mr. Chang Wei Wen, Ms. Lily Wu and Ms. Wong Ka Wai, Jeanne. The primary role and function of the remuneration committee are to review and make recommendations to the Board on the Company's policy and structure for all Directors and senior management remuneration; and to review and make recommendations to the Board the remuneration packages of all Directors and senior management.

Corporate Governance Report

The remuneration committee held one meeting during the year under review. Details of the attendance of the remuneration committee meetings are as follows:

Members	Attendance
Mr. Leung Ka Kui, Johnny	1/1
Mr. Chan Siu Wing, Raymond	1/1
Mr. Chang Wei Wen	1/1
Ms. Lily Wu	1/1
Ms. Wong Ka Wai, Jeanne	1/1

Compliance Officer

Ms. Lily Wu was appointed as the Compliance Officer of the Company on 28 December 2005. Details of her qualifications and experience are set out in the section headed "Profiles of Directors and Senior Management" on page 19 of this annual report.

Company Secretary

Mr. Lau Ka Chung is the Company Secretary of our Company. Details of his qualifications and experience are set out in the section headed "Profiles of Directors and Senior Management" on page 20 of this annual report.

Directors' and auditor's responsibilities for the consolidated financial statements

All Directors acknowledge their responsibility to prepare the Group's consolidated financial statements for each financial period to give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the consolidated financial statements for the year ended 31 December 2018, the Board has selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the consolidated financial statements of the Group on a going concern basis.

The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. The statement of auditor about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report on pages 27 to 29. The Directors continue to adopt the going concern approach in preparing the consolidated financial statements and are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

AUDITORS' REMUNERATION

During the year ended 31 December 2018, the fees paid/payable to the auditors of the Company in respect of audit and non-audit services provided by the auditors of the Company were as follows:

Nature of services	Amount HK$'000
Audit services	640
Non-audit services	120

Corporate Governance Report

INTERNAL CONTROL AND RISK MANAGEMENT

The Board acknowledges its responsibility for the effectiveness of the Group's internal control and risk management systems. Such internal control and risk management systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss. The Board had conducted a review on the effectiveness of the Group's internal control and risk management systems once during the year ended 31 December 2018 which covered financial, operational, compliance procedural and risk management functions and had considered the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function. In light of the size and scale of the Group's businesses, the Board is also delegated with the responsibilities for the internal control of the Group and for reviewing its effectiveness. As such, the Group currently does not have an internal audit department. The Board will review and consider to establish such department as and when it thinks necessary.

The Group believes that good corporate governance practices are very important for maintaining and promoting investor confidence and for the sustainable growth of the Group. The Group has therefore made continued efforts to uplift its quality of corporate governance. It has established a highly effective system of internal controls and adopted a series of measures to ensure its safety and effectiveness. As a result, the Group is able to safeguard its assets and protect the interests of its Shareholders.

The Board is of the view that the systems of internal control and risk management are effective and there are no irregularities, improprieties, fraud or other deficiencies that suggest material deficiency in the effectiveness of the Group's internal control system.

Principal risks and uncertainties

A number of factors may affect the results and business operations of the Group, major risks are summarised below.

Reliance on limited number of customers

The Group derived a significant portion of our revenue from a limited number of customers. For the year ended 31 December 2018, the five largest customers of the Group contributed 96.6% of total revenue to the Group. There is no assurance that these significant customers will continue their business relationship with the Group or that the revenue generated from the customers will increase or be maintained in the future. The Group will continue to expand the customer base to mitigate the risk.

Default Risks

The revenue generated from the wholesales of petro-chemical product is derived from a relatively small number of transaction with each transaction amount is significant. If there is any default in payment, it would have significant impact on the results and position of the Group. In this regards, the Group has adopted a conservative approach, that is, we will only conduct the wholesale business with customers who are large-scaled enterprises with good credit ratings (though the profit margin for transactions of this kind is usually lower), and to keep monitoring the payment status of each customer.

Handling and Dissemination of Inside Information

The Company has established and maintained the procedures and internal controls for the handling and dissemination inside information. The Company has adopted a code of conduct for dealing in securities of the Company by the Directors in accordance with Rules 5.46 to 5.67 of the GEM Listing Rules. Other employees of the Group who are likely to be in possession of inside information of the Company are also subject to dealing restrictions. The Group has strictly prohibited unauthorised use of confidential or inside information or any use of such information for the advantage of himself or others. Any inside information and any information which may potentially constitute inside information is promptly identified, assessed and escalated to the Board and for the Board to decide on the need for disclosure. Inside information and other information which is required to be disclosed pursuant to the GEM Listing Rules will be announced on the respective websites of GEM and the Company in due course.

Corporate Governance Report

SHAREHOLDERS' RIGHTS

Convening of extraordinary general meeting

Pursuant to article 58 of the articles of association of the Company (the "Articles of Association"), the Directors of the Company, notwithstanding anything in its bye-laws shall, on the requisition of Shareholders of the Company holding at the date of the deposit of the requisition not less than one-tenth of such of the paid-up capital of the company as at the date of the deposit carries the right of voting at general meetings of the Company, forthwith proceed duly to convene an extraordinary general meeting ("EGM") of the Company.

The requisition must state the purposes of the meeting, and must be signed by the requisitionists and deposited at the Company Secretary at the Company's principal place of business in Hong Kong, and may consist of several documents in like form each signed by one or more requisitionists.

The request will be verified with the Company's Share Registrars and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board of Directors to include the resolution in the agenda for the EGM.

If the Directors do not within twenty-one days from the date of the deposit of the requisition proceed duly to convene a meeting, the requisitionists may themselves convene a meeting.

Enquiries put to the Board

The enquiries must be in writing with contact information of the requisitionists and deposited at the Company Secretary at the Company's principal place of business in Hong Kong.

Procedures for putting forward proposals at shareholders' meetings

Pursuant to article 59(1) of the Articles of Association, in order to put forward proposals at an annual general meeting ("AGM"), or EGM, the Shareholders should submit a written notice of those proposals with the detail contact information to the Company Secretary at the Company's principal place of business in Hong Kong. The request will be verified with the Company's Share Registrars and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board to include the resolution in the agenda for the general meeting.

The notice period to be given to all the Shareholders for consideration of the proposal raised by the Shareholders concerned at AGM or EGM varies according to the nature of the proposal, as follows:

- At least 21 clear days' notice in writing if the proposal constitutes a special resolution of the Company in AGM or EGM

- At least 14 clear days' notice in writing for all other EGMs

INVESTOR RELATIONS

The Company has established a range of communication channels between itself and its shareholders, investors and other stakeholders. These include (i) the publication of quarterly, interim and annual reports; (ii) the annual general meeting or extraordinary general meeting providing a forum for shareholders to raise comments and exchanging views with the Board; (iii) updated and key information of the Group available on the websites of GEM and the Company; (iv) the Company's website offering communication channel between the Company and its shareholders and investors; and (v) the Company's share registrars in Hong Kong serving the shareholders in respect of all share registration matters.

The Company aims to provide its shareholders and investors with high standards of disclosure and financial transparency. The Board is committed to provide clear, detailed, timely manner and on a regular basis information of the Group to shareholders through the publication of quarterly, interim and annual reports and/or dispatching circulars, notices, and other announcements.

Significant Changes in Constitutional Documents

There were no significant changes in the constitutional documents of the Company for the year ended 31 December 2018.

Profiles of Directors and Senior Management

EXECUTIVE DIRECTORS

Lily WU, aged 56, is an executive Director and the Chairman of the Company. She was appointed as Director of the Company in June 2005. Ms. Wu has 32 years of experience in the technology sector investment research and industry analysis. She is currently an independent investment analyst on technology companies for private equity firms, and has previously worked as a director in equity research for Salomon Smith Barney, and as a vice president in equity research for Bankers Trust. Ms. Wu earned a Bachelor of Science degree with Honors in Engineering from the California Institute of Technology.

CHANG Wei Wen, aged 42, is an executive Director. He was appointed as a non-executive Director of the Company in May 2006 and was re-designated as an executive Director of the Company in December 2006 when he assumed key management and operating responsibilities for the Group. He formerly worked as an assistant to directors of a Taiwan company, which is principally engaged in international trade and wholesale of information software and electronic materials. Mr. Chang obtained a Bachelor of Organization Management degree from Patten University.

YANG Meng Hsiu, aged 42, is an executive Director. He was appointed as Director of the Company in March 2011. Mr. Yang graduated from The Leader University of Taiwan (currently known as The University of Kang Ning) with a bachelor degree in leisure management. Mr. Yang had more than 13 years of experience in product planning and brand name marketing business.

INDEPENDENT NON-EXECUTIVE DIRECTORS

LEUNG Ka Kui, Johnny, aged 62, is an independent non-executive Director. He is the chairman of the remuneration committee and one of the members of the audit committee and the nomination committee of the Company. Mr. Leung is a qualified solicitor in Hong Kong, the United Kingdom and Singapore. He has over 34 years of experience in the legal field. Currently, he is the managing partner of Messrs. Johnny K. K. Leung & Co, a law firm in Hong Kong. Mr. Leung is currently an independent non-executive director of each of Celestial Asia Securities Holdings Limited, Ban Loong Holdings Limited, Asia Coal Limited and Affluent Partners Holdings Limited, companies whose shares are listed on the Main Board of the Stock Exchange. Mr. Leung was formerly an independent non-executive director of Aeso Holding Limited, a company whose shares are listed on GEM of the Stock Exchange and has resigned on 8 June 2017. Mr. Leung holds a Bachelor of Laws from the University of London, United Kingdom. Mr. Leung joined the Company in September 2001.

Profiles of Directors and Senior Management

WONG Ka Wai, Jeanne, aged 54, is an independent non-executive Director. She is the chairman of the audit committee and one of the members of the remuneration committee and the nomination committee of the Company. Ms. Wong has over 31 years of experience in finance, accounting, taxation and corporate affairs. Ms. Wong is a member of the Chartered Accountants Australia and New Zealand, a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Taxation Institute of Hong Kong and a member of the Society of Trust and Estate Practitioners. She holds a Bachelor Degree in Economics from the University of Sydney, Australia. Ms. Wong is currently the Managing Director of Wellex Consultancy Limited as well as the Chief Financial Officer and Consultant of a local law firm and CPA firm. Ms. Wong is also an independent non-executive director of Hua Xia Healthcare Holdings Limited, a company whose shares are listed on GEM of the Stock Exchange. Ms. Wong joined the Company in September 2001.

CHAN Siu Wing, Raymond, aged 54, is an independent non-executive Director. He is one of the members of the audit committee, the remuneration committee and the nomination committee of the Company. Mr. Chan has over 28 years of experience in the field of accounting, taxation, finance and trust. He is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a founding member of the Macau Society of Certified Practising Accountants. Mr. Chan holds a Bachelor of Economics degree from the University of Sydney. Mr. Chan holds the position of independent non-executive director of each of Nature Home Holding Company Limited, Hong Kong Finance Group Limited and Quali-Smart Holdings Limited, companies whose shares are listed on the Main Board of the Stock Exchange. Mr. Chan was formerly an independent non-executive director of each of China Kingstone Mining Holdings Limited and National Agricultural Holdings Limited, companies whose shares are listed on the Main Board of the Stock Exchange and has resigned on 23 December 2015 and on 31 March 2016 respectively. Mr. Chan joined the Company in February 2007.

SENIOR MANAGEMENT

LAU Ka Chung, aged 46, is the financial controller and the Company Secretary of the Group. Mr. Lau has over 22 years of experience in auditing, accounting & finance, taxation and corporate compliance. Mr. Lau holds a Master degree in Corporate Governance from the Hong Kong Polytechnic University and a Bachelor Degree in Business Administration (majoring in Finance) from the Hong Kong University of Science and Technology. He is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants, as well as a fellow member of The Hong Kong Institute of Chartered Secretaries in Hong Kong. Mr. Lau joined the Group in May 2003.

Directors' Report

The Directors have pleasure in submitting the annual report of the Company together with its audited consolidated financial statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and provision of management services. Details of the principal activities of its subsidiaries are set out in note 34 to the consolidated financial statements.

The revenue of the Group is derived principally from the contract manufacturing and sales of smart cards and sales of petro-chemical products.

RESULTS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 30.

DIVIDEND POLICY

The Company has adopted a general dividend policy that aims to provide shareholders of the Company out of the Group's profit attributable to shareholders in any financial year. In proposing any dividend payout, the Board shall take into account, inter alia, the following factors:

- the Group's actual and expected financial performance;
- shareholders' interests;
- retained earnings and distributable reserves of the Company and each of the other members of the Group;
- the level of the Group's debts to equity ratio, return on equity and financial covenants to which the Group is subject;
- possible effects on the Group's creditworthiness;
- any restrictions on payment of dividends that may be imposed by the Group's lenders;
- the Group's expected working capital requirements and future expansion plans;
- liquidity position and future commitments at the time of declaration of dividend;
- taxation considerations;
- statutory and regulatory restrictions;
- general business conditions and strategies;
- general economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Company; and
- other factors that the Board deems appropriate.

Directors' Report

The payment of dividend is also subject to any restrictions under the applicable laws, the Company's Memorandum and Articles of Association.

The Directors do not recommend any payment of a final dividend for the year ended 31 December 2018 (2017: nil).

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 32 to the consolidated financial statements respectively.

DIRECTORS

The Directors who held office during the financial year and up to the date of this report were:

Executive Directors
Lily Wu *(Chairman and Chief Executive Officer)*
Chang Wei Wen
Yang Meng Hsiu

Independent non-executive Directors
Chan Siu Wing, Raymond
Leung Ka Kui, Johnny
Wong Ka Wai, Jeanne

In accordance with Article 87(1) of the Articles of Association, Mr. Yang Meng Hsiu and Ms. Wong Ka Wai, Jeanne retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment during the year are set out in note 18 to the consolidated financial statements.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance (as defined in rule 18.25 of the GEM Listing Rules) to which the Company or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movement in the Company's authorised and issued share capital and share option scheme during the year are set out in notes 30 and 31 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The Company's reserve available for distribution represents the contributed surplus, share premium, other reserves and accumulated losses. At the balance sheet date, the Company had no reserves available for distribution.

Directors' Report

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

As at 31 December 2018, 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 Rules 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
Executive Director					
Lily Wu *(Note 1)*	Beneficial owner	Long	100,000	4,500,000	0.97
Chang Wei Wen *(Note 1)*	Beneficial owner	Long	525,000	4,500,000	0.95
Yang Meng Hsiu *(Note 1)*	Beneficial owner	Long	4,300,000	4,500,000	1.67
Independent non-executive Director					
Chan Siu Wing, Raymond *(Note 2)*	Beneficial owner	Long	–	450,000	0.09
Leung Ka Kui, Johnny *(Note 2)*	Beneficial owner	Long	–	450,000	0.09
Wong Ka Wai, Jeanne *(Note 2)*	Beneficial owner	Long	–	450,000	0.09

Note:

1. These include 4,500,000 Share Options conferring rights to subscribe for 4,500,000 Shares.

2. These include 450,000 Share Options conferring rights to subscribe for 450,000 Shares

Save as disclosed above, as at 31 December 2018, 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 Rules 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

Directors' Report

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018, the following persons/companies had interests 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	9.87
Best Heaven Limited *(Note 1)*	Beneficial	Long	31,586,500	6.00
Mr. Tsai Chi Yuan *(Note 1)*	Interests in controlled company	Long	83,514,012	15.87

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 31 December 2018, 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 carrying rights to vote in all circumstances at general meetings of any other member of the Group.

SENIOR MANAGEMENT

The Group regards the executive Directors, independent non-executive Directors and financial controller of the Company as members of the senior management team.

The emoluments paid or payable to members of senior management were within the following brands:

	Number of individuals	
	2018	2017
Emolument bands		
Nil – HK$1,000,000	**5**	6
HK$1,000,001 – HK$1,500,000	**1**	1
HK$1,500,001 – HK$2,000,000	**1**	–

The biographies of members of the senior management team at the date of this annual report are disclosed in the section headed "Profiles of Directors and Senior Management" in this annual report.

Directors' Report

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Environmental, Social and Governance Report of the Company prepared in accordance with Appendix 20 to the GEM Listing Rules will be published within three months after the publication of the annual report of the Company.

EVENTS AFTER THE REPORTING PERIOD

The events after the reporting period of the Group are set out in note 24 to the consolidated financial statements of this annual report.

EQUITY LINKED AGREEMENTS

Save as disclosed in the sections headed "Chairman's Statement" and "Share Option Scheme", no equity-linked agreements were entered into by the Company at any time during the year ended 31 December 2018 or subsisted at the end of the year.

Compliance with Relevant Laws and Regulations

The Group recognises the importance of compliance with legal and regulatory requirements and the risk of non-compliance with such requirements. The Group conducts on-going reviews of newly enacted/revised laws and regulations affecting its operations. The Company is not aware of any non-compliance in any material respect with the relevant laws and regulations that have a significant impact on the business and operation of the Group for the year ended 31 December 2018.

Relationship with Employees, Suppliers, Customers and Other Stakeholders

The Group understands that the success of the Group's business depends on the support from its key stakeholders, including employees, customers, suppliers, banks, regulators and shareholders. The Group will continue to ensure effective communication and maintain good relationship with each of its key stakeholders.

MAJOR CUSTOMERS AND SUPPLIERS

Information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

Sales	
– the largest customer	46.7%
– five largest customers in aggregate	96.6%
Purchases	
– the largest supplier	47.7%
– five largest suppliers in aggregate	81.7%

At no time during the year have the Directors, their associates or any shareholders of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had an interest in the Group's five largest suppliers or customers during the year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association, or the laws and regulations of the Cayman Islands, which would oblige the Company to offer new shares on pro-rata basis to existing shareholders.

Directors' Report

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the past five financial years is set out on page 100 of the annual report.

INDEPENDENT AUDITOR

A resolution to re-appoint Grant Thornton Hong Kong Limited as auditor of the Company will be proposed at the forthcoming AGM.

For and on behalf of the Board
Lily Wu
Chairman

Hong Kong, 26 March 2019

Independent Auditor's Report

Grant Thornton
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To the members of Phoenitron Holdings Limited
(incorporated in the Cayman Islands with limited liability)

DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of Phoenitron Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 30 to 99, which comprise the consolidated statement of financial position as at 31 December 2018, 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.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

As described in note 23(c) to the consolidated financial statements, included in other receivables as at 31 December 2018 is receivables from a petroleum company (the "Petroleum Company") of RMB68,186,400 (equivalent to approximately HK$77,484,545), and no expected credit loss allowance was recognised against these receivables. Details of the balance are summarised below:

Shanghai Phoenitron Petroleum & Chemical Company Limited (literal translation of the Chinese name of 上海品創石油化工有限公司) ("Shanghai Phoenitron") is an indirect non-wholly owned subsidiary of the Company, in which 75% of equity interest is held by Phoenitron Resources Company Limited ("Phoenitron HK"), an indirect wholly-owned subsidiary of the Company, and 25% of equity interest is held by Mr. Sun.

As at 10 December 2018, Shanghai Phoenitron has outstanding trade receivables due from a customer (the "Shanghai Customer") of RMB84,744,000 (equivalent to approximately HK$96,300,000) (the "Outstanding Amount") and outstanding trade payables due to the Petroleum Company of RMB307,600 (equivalent to approximately HK$349,546).

Management represented that the Petroleum Company and the Shanghai Customer are independent third parties of the Group.

On 10 December 2018, Shanghai Phoenitron, the Shanghai Customer and the Petroleum Company entered into an agreement ("Agreement A") in which the Shanghai Customer has assigned part of its trade receivable of RMB84,744,000 (equivalent to approximately HK$96,300,000) from the Petroleum Company to Shanghai Phoenitron, and Shanghai Phoenitron has agreed to assume all rights and benefits of the Shanghai Customer's trade receivables from the Petroleum Company of RMB84,744,000 (equivalent to approximately HK$96,300,000), as settlement of the Outstanding Amount, with full recourse if the Petroleum Company failed to make full settlement to Shanghai Phoenitron. In this respect, the Group derecognised trade receivables of RMB84,744,000 (equivalent to approximately HK$96,300,000) from the Shanghai Customer and recognised other receivables from the Petroleum Company of the same amount (the "Petroleum Company Receivables") during the year ended 31 December 2018.

Independent Auditor's Report

On 17 December 2018, Shanghai Phoenitron completed a share reduction of which RMB48,750,000 (equivalent to approximately HK$55,397,727) should be payable to Phoenitron HK and RMB16,250,000 (equivalent to approximately HK$18,465,909) should be payable to Mr. Sun.

On 20 December 2018, Shanghai Phoenitron, the Petroleum Company, Phoenitron HK and Mr. Sun entered into an agreement ("Agreement B") in which (i) Phoenitron HK and Mr. Sun have agreed to assume all rights and benefits of part of the Petroleum Company Receivables of RMB65,000,000 (equivalent to approximately HK$73,863,636) as settlement of the share reduction of Shanghai Phoenitron as mentioned above, and (ii) Shanghai Phoenitron and the Petroleum Company have agreed to offset the trade payables to the Petroleum Company of RMB307,600 (equivalent to approximately HK$349,546) against other receivables from the Petroleum Company. In this respect, in the books of Shanghai Phoenitron, the amount due from the Petroleum Company decreased from RMB84,744,000 (equivalent to approximately HK$96,300,000) to RMB19,436,400 (equivalent to approximately HK$22,086,818). Meanwhile, an amount due from the Petroleum Company of RMB48,750,000 (equivalent to approximately HK$55,397,727) and RMB16,250,000 (equivalent to approximately HK$18,465,909) was recognised in the books of Phoenitron HK and Mr. Sun, respectively.

In this respect, the Group has total other receivables from the Petroleum Company of RMB68,186,400 (equivalent to approximately HK$77,484,545) as at 31 December 2018.

Based on Agreement B, the Petroleum Company should settle RMB19,436,400 (equivalent to approximately HK$22,086,818) ("First Instalment") on or before 10 March 2019 and there are no repayment terms stated on the remaining balance of RMB48,750,000 (equivalent to approximately HK$55,397,727) to Phoenitron HK and RMB16,250,000 (equivalent to approximately HK$18,465,909) to Mr. Sun. During the course of our audit, it came to our attention that the Petroleum Company has default on payment of the First Instalment and all the related receivables from the Petroleum Company remained unsettled up to the date of this report.

In respect of the abovementioned transactions and balances occurred and recorded during the year ended 31 December 2018, we were unable to obtain sufficient appropriate audit evidence or satisfactory management explanation to support management's recoverability assessment, including but not limited to, information to ascertain the background and financial strength of the Petroleum Company. We were also not able to obtain all the necessary corroborative evidence from the counterparties to substantiate the nature of these transactions and the related outstanding balances. There were no alternative audit procedures that we could perform to satisfy ourselves as to the occurrence, accuracy, completeness and presentation of these transactions together with the related balances, and to assess the Petroleum Company's ability to repay the debts, and whether the effects of these transactions, including the related cashflows, have been properly accounted for and disclosed in the consolidated financial statements as at and for the year ended 31 December 2018, and whether the balance of the expected credit loss allowance as at the end of reporting period were fairly stated. Consequently, we were not able to determine whether any adjustment to these amounts and disclosures was necessary.

Independent Auditor's Report

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors assisted by the Audit Committee are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

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.

Grant Thornton Hong Kong Limited
Certified Public Accountants
Level 12
28 Hennessy Road
Wanchai
Hong Kong

26 March 2019

Lee Lai Lan, Joyce
Practising Certificate No.: P06409

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 HK$	2017 HK$
Revenue	*6*	**52,333,412**	380,960,322
Cost of sales		**(40,579,503)**	(369,634,249)
Gross profit		**11,753,909**	11,326,073
Other income	*7*	**4,376,961**	235,382
Other gains/(losses), net	*8*	**577,668**	(485,489)
Reversal of impairment loss on amount due from a joint venture	*24*	**23,215,878**	-
Selling and distribution costs		**(3,523,335)**	(4,064,191)
Administrative expenses		**(33,430,952)**	(25,537,837)
Impairment loss on other receivables and prepayments		**(225,472)**	(641,026)
Finance costs	*9*	**(1,092,964)**	(786,638)
Profit/(Loss) before income tax	*10*	**1,651,693**	(19,953,726)
Income tax (expense)/credit	*11*	**(233,560)**	11,163
Profit/(Loss) for the year		**1,418,133**	(19,942,563)
Other comprehensive (loss)/income			
Items that may be reclassified subsequently to profit or loss:			
Exchange (loss)/gain on translation of financial statements of foreign operations		**(5,094,006)**	7,770,938
Other comprehensive (loss)/income for the year		**(5,094,006)**	7,770,938
Total comprehensive loss for the year		**(3,675,873)**	(12,171,625)
Profit/(Loss) for the year attributable to:			
Owners of the Company		**1,614,760**	(19,770,206)
Non-controlling interests		**(196,627)**	(172,357)
		1,418,133	(19,942,563)
Total comprehensive (loss)/income for the year attributable to:			
Owners of the Company		**(1,912,357)**	(13,795,403)
Non-controlling interests		**(1,763,516)**	1,623,778
		(3,675,873)	(12,171,625)
		HK cents	HK cents
Earnings/(Loss) per share	*13*		
– Basic		**0.321**	(4.713)
– Diluted		**0.317**	(4.713)

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transitions method chosen, comparative information is not restated. See note 3.

The notes on pages 35 to 99 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018 HK$	2017 HK$
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	18	6,980,393	9,804,732
Intangible asset	19	420,000	420,000
Prepayments for acquisition of property, plant and equipment		1,178,045	–
Interests in associates	20	–	–
Long-term financial assets	21	–	–
		8,578,438	10,224,732
Current assets			
Inventories	22	1,331,159	1,551,977
Trade and other receivables	23	106,774,710	230,048,287
Amount due from a joint venture	24	23,215,878	–
Tax recoverable		674,221	965,896
Pledged bank deposits	25	–	2,212,324
Cash and cash equivalents	26	837,849	2,283,931
		132,833,817	237,062,415
Current liabilities			
Trade and other payables	27	45,844,280	139,947,030
Borrowings	28	6,457,045	13,923,034
		52,301,325	153,870,064
Net current assets		80,532,492	83,192,351
Total assets less current liabilities		89,110,930	93,417,083
Non-current liabilities			
Deferred tax liabilities	29	4,707	4,707
Net assets		89,106,223	93,412,376
EQUITY			
Share capital	30	105,258,500	90,258,500
Reserves	32	(21,779,947)	(22,516,275)
Equity attributable to owners of the Company		83,478,553	67,742,225
Non-controlling interests	35	5,627,670	25,670,151
Total equity		89,106,223	93,412,376

Lily Wu
Director

Chang Wei Wen
Director

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transitions method chosen, comparative information is not restated. See note 3.

The notes on pages 35 to 99 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to owners of the Company									
	Share capital HK$	Share premium* HK$	Contributed surplus* HK$	Share option reserve* HK$	Other reserves* HK$	Translation reserve* HK$	Accumulated losses* HK$	Total HK$	Non-controlling interests HK$	Total equity HK$
Balance at 1 January 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 shares upon shares subscription *(note 30(b))*	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 and 1 January 2018	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
Adjustment from adoption of HKFRS 9 *(note 3(a))*	–	–	–	–	–	–	(665,315)	(665,315)	–	(665,315)
Adjusted balance at 1 January 2018	90,258,500	363,342,716	13,985,669	1,360,008	7	8,125,040	(409,995,030)	67,076,910	25,670,151	92,747,061
Issue of shares upon shares subscription *(note 30(c))*	15,000,000	(25,000)	–	–	–	–	–	14,975,000	–	14,975,000
Capital reduction of non-controlling interests *(note 39(iii))*	–	–	–	–	–	–	–	–	(18,278,965)	(18,278,965)
Share-based payments *(note 31)*	–	–	–	3,339,000	–	–	–	3,339,000	–	3,339,000
Lapse of employee share options *(note 31)*	–	–	–	(1,360,008)	–	–	1,360,008	–	–	–
Transactions with owners	15,000,000	(25,000)	–	1,978,992	–	–	1,360,008	18,314,000	(18,278,965)	35,035
Profit/(Loss) for the year	–	–	–	–	–	–	1,614,760	1,614,760	(196,627)	1,418,133
Other comprehensive loss										
– Translation of financial statements of foreign operations	–	–	–	–	–	(3,527,117)	–	(3,527,117)	(1,566,889)	(5,094,006)
Total comprehensive (loss)/income for the year	–	–	–	–	–	(3,527,117)	1,614,760	(1,912,357)	(1,763,516)	(3,675,873)
Balance at 31 December 2018	105,258,500	363,317,716	13,985,669	3,339,000	7	4,597,923	(407,020,262)	83,478,553	5,627,670	89,106,223

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transitions method chosen, comparative information is not restated. See note 3.

* The total of these accounts as at the reporting date represents "Reserves" of HK$21,779,947 (2017: HK$22,516,275) in deficit in the consolidated statement of financial position.

The notes on pages 35 to 99 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Notes	2018 HK$	2017 HK$
Cash flows from operating activities			
Profit/(Loss) before income tax		1,651,693	(19,953,726)
Adjustments for:			
Bad debts recovered		(3,390,207)	–
Bad debts written off		112,558	393,634
Depreciation		3,045,269	3,492,309
Finance costs		1,092,964	786,638
Gain on disposal of property, plant and equipment		(110,000)	(345,175)
Written-off of property, plant and equipment		253,409	185,831
Interest income		(2,787)	(1,931)
Impairment loss on other receivables and prepayments		225,472	641,026
Reversal of impairment loss on amount due from a joint venture		(23,215,878)	–
Reversal of impairment loss on trade receivables		(99,514)	–
Share-based payments		3,339,000	–
Operating loss before working capital changes		(17,098,021)	(14,801,394)
Decrease/(Increase) in inventories		210,635	(1,364,170)
Decrease/(Increase) in trade and other receivables		1,552,041	(97,364,622)
Increase in trade and other payables		7,140,950	101,161,239
Cash used in operations		(8,194,395)	(12,368,947)
Interest paid		(1,039,956)	(755,072)
Income tax refund		42,029	255,036
Net cash used in operating activities		(9,192,322)	(12,868,983)
Cash flows from investing activities			
Interest received		2,787	1,931
Decrease/(Increase) in pledged bank deposits		2,212,324	(2,203,029)
Proceeds on disposal of property, plant and equipment		110,000	345,175
Purchase of property, plant and equipment		(888,428)	(3,452,632)
Prepayments for acquisition of property, plant and equipment		(1,178,045)	–
Net cash from/(used in) investing activities		258,638	(5,308,555)

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Notes	2018 HK$	2017 HK$
Cash flows from financing activities			
Proceeds from new bank loans		13,457,100	31,504,525
Repayments of bank loans		(20,398,775)	(29,525,175)
Proceeds from shareholders' loans		1,613,122	3,865,184
Repayments of shareholders' loans		(3,252,353)	(2,795,984)
Proceeds from other loans		6,396,500	6,146,785
Repayments of other loans		(5,267,915)	(1,495,587)
Proceeds from shares issued	30	15,000,000	8,380,000
Share issue costs	30	(25,000)	(25,000)
Net cash from financing activities		7,522,679	16,054,748
Net decrease in cash and cash equivalents		(1,411,005)	(2,122,790)
Cash and cash equivalents at 1 January		2,283,931	4,199,398
Effect of foreign exchange rate changes		(35,077)	207,323
Cash and cash equivalents at 31 December		837,849	2,283,931

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transitions method chosen, comparative information is not restated. See note 3.

The notes on pages 35 to 99 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

1. GENERAL INFORMATION

Phoenitron Holdings Limited (the "Company") is a public limited company incorporated in the Cayman Islands and its shares are listed on the GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and the principal place of business of the Company is located at Unit 302, Seapower Centre, 73 Lei Muk Road, Kwai Chung, New Territories, Hong Kong.

The principal activities of the Company and its subsidiaries (the "Group") are the manufacturing and sales of smart cards, the provision of customised smart card application systems, the provision of financial and management consultancy services, trading of scrap metals and sales of petro-chemical products.

The consolidated financial statements for the year ended 31 December 2018 were approved for issue by the board of directors on 26 March 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements on pages 30 to 99 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collectively includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the accounting principles generally accepted in Hong Kong. The consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and include the applicable disclosure requirements of the Rules Governing the Listing of Securities on GEM of the Stock Exchange.

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarised below. These policies 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 3.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial assets which are measured at fair values. The measurement bases are fully described in the accounting policies below.

In preparing the consolidated financial statements, the directors of the Company have given consideration to the future liquidity of the Group in light of its net cash used in operating activities of HK$9,192,322 incurred during the year ended 31 December 2018 and, as of that date, the Group's cash and cash equivalents amounted to HK$837,849. These indicate a condition which may cast significant doubt about the Group's ability to continue as a going concern. The directors of the Company had made an assessment and concluded the Group is able to continue as a going concern and will have sufficient financial resources to support its current operations and to meet its financial obligations as and when they fall due for at least the next twelve months from the end of the reporting period, having regard to (i) the Group's current and forecasted cash position; and (ii) the Company's substantial shareholder, Mr. Tsai Chi Yuan, has confirmed to provide continuing financial support to the Group in the next twelve months from 1 January 2019 to enable it to meet its liabilities when they fall due. Consequently, the consolidated financial statements have been prepared on a going concern basis.

It should be noted that accounting estimates and assumptions are used in preparation of the consolidated financial statements. Although these estimates and assumptions are based on management's best knowledge and judgment of current events and actions, actual results may ultimately differ from those estimates and assumptions. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power over the entity, only substantive rights relating to the entity (held by the Group and others) are considered.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

The Group includes the income and expenses of a subsidiary in the consolidated financial statements from the date it gains control until the date when the Group ceases to control the subsidiary.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on sales of intra-group asset are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Non-controlling interests represent the equity on a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e., reclassified to profit or loss or transferred directly to retained earnings).

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss. Cost also includes direct attributable costs of investment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of consolidation (Continued)

The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

2.3 Associates and joint ventures

An associate is an entity over which the Group has significant influence, which is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions relating about relevant activities require the unanimous consent of the parties sharing control.

In consolidated financial statements, an investment in an associate or a joint venture is initially recognised at cost and subsequently accounted for using the equity method. Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate or joint venture recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group, plus any costs directly attributable to the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss in the determination of the Group's share of the associate or joint venture's profit or loss in the period in which the investment is acquired.

Under the equity method, the Group's interest in the associate or joint venture is carried at cost and adjusted for the post-acquisition changes in the Group's share of the associate or joint venture's net assets less any identified impairment loss. The profit or loss for the year includes the Group's share of the post-acquisition, post-tax results of the associate or joint venture for the year, including any impairment loss on the investment in associate or joint venture recognised for the year. The Group's other comprehensive income for the year includes its share of the associate or joint venture's other comprehensive income for the year.

Unrealised gains on transactions between the Group and its associate and joint venture are eliminated to the extent of the Group's interest in the associate or joint venture. Where unrealised losses on assets sales between the Group and its associate or joint venture are reversed on equity accounting, the underlying asset is also tested for impairment from the Group's perspective. Where the associate or joint venture uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate or joint venture's accounting policies to those of the Group when the associate or joint venture's financial statements are used by the Group in applying the equity method.

When the Group's share of losses in an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. For this purpose, the Group's interest in the associate or joint venture is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or joint venture.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Associates and joint ventures (Continued)

After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates or joint venture. At each reporting date, the Group determines whether there is any objective evidence that the investment in associate or joint venture is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (i.e. higher of value in use and fair value less costs of disposal) of the associate or joint venture and its carrying amount. In determining the value in use of the investment, the Group estimates its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including cash flows arising from the operations of the associate or joint venture and the proceeds on ultimate disposal of the investment.

In the Company's statement of financial position, investments in associates and joint ventures are stated at cost less impairment losses.

2.4 Foreign currency translation

The consolidated financial statements are presented in Hong Kong Dollar ("HK$"), which is also the functional currency of the Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated (i.e. only translated using the exchange rates at the transaction date).

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rates at the reporting date. Income and expenses have been converted into the Hong Kong dollars at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the translation reserve in equity.

On the disposal of a foreign operation (i.e., a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, loss of joint control over a joint venture that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the Group are reclassified to profit or loss. Any exchange differences that have previously been attributed to non-controlling interests are derecognised, but they are not reclassified to profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation on property, plant and equipment is provided to write off the costs less their residual values over their estimated useful lives, using the straight-line method, at the rate of 20% per annum.

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on retirement or disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs, such as repairs and maintenance, are charged to profit or loss during the financial period in which they are incurred.

2.6 Intangible assets

Acquired intangible assets are recognised initially at cost. After initial recognition, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

The assets' amortisation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Intangible assets, with indefinite useful lives, are tested for impairment as described below in note 2.17.

2.7 Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all of its risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Financial instruments (Continued)

Financial assets

Policy applicable from 1 January 2018

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with HKFRS 15, all financial assets are initially measured at fair value, in case of a financial asset not at fair value through profit or loss ("FVTPL"), plus transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in the consolidated statement of profit or loss and other comprehensive income.

Financial assets are classified into the following categories:

– amortised cost;

– FVTPL; or

– fair value through other comprehensive income ("FVOCI").

The classification is determined by both:

– the entity's business model for managing the financial asset; and

– the contractual cash flow characteristics of the financial asset.

Under HKFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs or other income, except for ECL of trade receivables which is presented within administrative expenses.

Subsequent measurement of financial assets

<u>Debt investments – Financial assets at amortised cost</u>

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

– they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and

– the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Interest income from these financial assets is included in profit or loss. Discounting is omitted where the effect of discounting is immaterial. The Group's trade and other receivables, amount due from a joint venture and cash and cash equivalents, fall into this category of financial instruments.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Financial instruments (Continued)

Financial assets (Continued)

Policy applicable from 1 January 2018 (Continued)

Subsequent measurement of financial assets (Continued)

Debt investments – Financial assets at FVTPL

Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell" are categorised at FVTPL. Further, irrespective of business model, financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements under HKFRS 9 apply.

Equity investments

An investment in equity securities is classified as FVTPL unless the equity investment is not held for trading purposes and on initial recognition of the investment, the Group elects to designate the investment at FVTPL such that subsequent changes in fair value are recognised in profit or loss and accumulated in accumulated losses in equity. Such elections are made on an instrument-by-instrument basis, but only be made if the investment meets the definition of equity from the issuer's perspective.

Policy applicable before 1 January 2018

The Group classifies its financial assets into loans and receivables, financial assets at fair value through profit or loss and available-for-sale financial assets. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term, or it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Financial instruments (Continued)

Financial assets (Continued)

Policy applicable before 1 January 2018 (Continued)

Subsequent measurement of financial assets (Continued)

Financial assets at fair value through profit or loss (Continued)

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in profit or loss. Fair value is determined by reference to active market transactions or using a valuation technique where no active market exists. Fair value gain or loss does not include any dividend or interest earned on these financial assets. Dividend and interest income is recognised in accordance with the Group's policies in note 2.15 to these consolidated financial statements.

Available-for-sale financial assets

Non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets are classified as available-for-sale financial assets.

All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in the fair value excluding any dividend and interest income is recognised in other comprehensive income and accumulated separately in the available-for-sale financial assets revaluation reserve in equity, except for impairment losses (see policy below) and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised, at which time the cumulative gain or loss is reclassified from equity to profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

For available-for-sale investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each reporting period subsequent to initial recognition.

Financial liabilities

Classification and measurement of financial liabilities

The Group's financial liabilities include borrowings and trade and other payables.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at FVTPL.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method, which are carried subsequently at fair value with gains or losses recognised in profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or other income.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Financial instruments (Continued)

Financial liabilities (Continued)

Classification and measurement of financial liabilities (Continued)

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments

Details of accounting policy of derivative financial instruments is set out in note 2.10.

2.8 Impairment of financial assets

Policy applicable from 1 January 2018

HKFRS 9's impairment requirements use more forward-looking information to recognise ECL – the "ECL model". Instruments within the scope included loans and other debt-type financial assets measured at amortised cost and FVOCI and trade receivables.

The Group considers a broader range of information when assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

– financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ("Stage 1") and

– financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ("Stage 2").

"Stage 3" would cover financial assets that have objective evidence of impairment at the reporting date.

"12-month ECL" are recognised for the Stage 1 category while "lifetime ECL" are recognised for the Stage 2 category.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Impairment of financial assets (Continued)

Policy applicable from 1 January 2018 (Continued)

Trade receivables

For trade receivables, the Group applies a simplified approach in calculating ECL and recognises a loss allowance based on lifetime ECL at each reporting date. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. In calculating the ECL, the Group has established a provision matrix that is based on its historical credit loss experience and external indicators, adjusted for forward-looking factors specific to the debtors and the economic environment. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

Other financial assets measured at amortised cost

The Group measures the loss allowance for other receivables equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of default occurring since initial recognition.

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial assets at the reporting date with the risk of default occurring on the financial assets at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

– an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

– significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

– existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

– an actual or expected significant deterioration in the operating results of the debtor; or

– an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Impairment of financial assets (Continued)

Policy applicable from 1 January 2018 (Continued)

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the end of each reporting period. A debt instrument is determined to have low credit risk if it has a low risk of default, the borrower has strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Detailed analysis of the ECL assessment of trade receivables and other financial assets measured at amortised cost are set out in note 40.2.

Policy applicable before 1 January 2018

At each reporting date, financial assets are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

– Significant financial difficulty of the debtor;

– A breach of contract, such as a default or delinquency in interest or principal payments;

– It becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– Significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor;

– The disappearance of an active market for that financial asset because of financial difficulties; and

– A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Impairment of financial assets (Continued)

Policy applicable before 1 January 2018 (Continued)

If any such evidence exists, the impairment loss is measured and recognised as follows:

(i) Financial assets carried at amortised cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the financial asset at the date of impairment is reversed, does not exceed what the amortised cost would have been had the impairment not been recognised.

(ii) Available-for-sale financial assets carried at fair value

When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and accumulated in equity and there is objective evidence that the asset is impaired, an amount is removed from equity and recognised in profit or loss as an impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

(iii) Financial assets carried at cost

For financial assets carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the financial assets and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. The amount of the impairment losses is recognised in profit or loss of the period in which the impairment occurs and not reversed in subsequent periods.

2.9 Inventories

Inventories are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses. Cost is determined using the weighted average basis, and in the case of work in progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of overheads. It excludes borrowing costs.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Derivative financial instruments

Derivative financial instruments are recognised at fair value at the end of each reporting period with gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for hedged accounting under HKFRS 9.

2.11 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short-term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

2.12 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating lease charges as the lessee

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to profit and loss on a straight-line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

2.13 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation. All provisions are reviewed at each reporting period and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued. Any transaction costs associated with the issuing of shares (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

2.15 Revenue recognition

Revenue arises mainly from sales of smart cards and related application systems, the provision of financial and management consultancy services, trading of scrap metals and sales of petro-chemical products.

To determine whether to recognise revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer.

2. Identifying the performance obligations.

3. Determining the transaction price.

4. Allocating the transaction price to the performance obligations.

5. Recognising revenue when/as performance obligation(s) are satisfied.

In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

Further details of the Group's revenue and other income recognition policies are as follows:

Revenue from the sales of smart cards and related application systems, trading of scrap metals and petro-chemical products for which control of assets is transferred at a point in time is recognised when the goods are delivered to customers. The Group does not provide any sales-related warranties. There is no right of return by customers under the Group's standard contract terms.

Service income from providing financial and management consultancy and handling fee income are recognised over time when the services are rendered.

Interest income is recognised on a time proportion basis using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants are deferred and recognised in profit or loss over the period necessary to match them with the costs that the grants are intended to compensate.

Government grants relating to income is presented in gross under "Other income" in the consolidated statement of profit or loss and other comprehensive income.

2.17 Impairment of non-financial assets

Intangible assets with indefinite useful lives are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. Property, plant and equipment, prepayments for acquisition of property, plant and equipment, interests in subsidiaries, associates and joint ventures are subject to impairment testing whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs of disposal, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Impairment losses is charged pro rata to the assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost of disposal, or value in use, if determinable.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. A reversal of such impairment is credited to profit or loss in the period in which it arises unless that asset is carried at revalued amount, in which case the reversal of impairment loss is accounted for in accordance with the relevant accounting policy for the revalued amount.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Employee benefits

Retirement benefits

Retirement benefits to employees are provided through defined contribution plans.

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in the People's Republic of China (the "PRC") are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute specified percentage of its payroll costs to the central pension scheme.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The Group's obligations under these plans are limited to the fixed percentage contributions payable.

Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

2.19 Share-based employee compensation

The Group operates equity-settled share-based compensation plans for remuneration of its employees.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

All share-based compensation is recognised as an expense in profit or loss over the vesting period if vesting conditions apply, or recognised as an expense in full at the grant date when the equity instruments granted vest immediately unless the compensation qualifies for recognition as asset, with a corresponding increase in the share option reserve in equity. If vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of equity instruments expected to vest. Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to vest. Estimates are subsequently revised, if there is any indication that the number of equity instruments expected to vest differs from previous estimates.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Share-based employee compensation (Continued)

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the vested share options are later forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

2.20 Borrowing costs

All borrowing costs are expensed in the period in which they are incurred.

2.21 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Accounting for income taxes (Continued)

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

When different tax rates apply to different levels of taxable income, deferred tax assets and liabilities are measured using the average tax rates that are expected to apply to the taxable income of the periods in which the temporary differences are expected to reverse.

The determination of the average tax rates requires an estimation of (1) when the existing temporary differences will reverse and (2) the amount of future taxable profit in those years. The estimate of future taxable profit includes:

– income or loss excluding reversals of temporary differences; and

– reversals of existing temporary differences

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

Current tax assets and current tax liabilities are presented in net if, and only if,

(a) the Group has the legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

    (i) the same taxable entity; or

    (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the chief operating decision marker (i.e. executive directors) for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major product and service lines.

In respect of geographical information, revenue is based on shipment destination instructed by customers and non-current assets are where the assets are located.

2.23 Related parties

For the purposes of these consolidated financial statements, a party is considered to be related to the Group if:

(a) a person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or of a parent of the Group.

(b) an entity is related to the Group if any of the following conditions apply:

(i) the entity and the Group are members of the same group.

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) the entity and the Group are joint ventures of the same third party.

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) the entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

(vi) the entity is controlled or jointly controlled by a person identified in (a).

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. ADOPTION OF NEW AND AMENDED HKFRSs

(a) New and amended HKFRSs that are effective for annual periods beginning or after 1 January 2018

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 2018:

HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers and the related Amendments*
Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 1	*As part of the Annual Improvements to HKFRSs 2014-2016 Cycle*
Amendments to HKAS 28	*As part of the Annual Improvements to HKFRSs 2014-2016 Cycle*
HK(IFRIC) – Int 22	*Foreign Currency Transactions and Advance Consideration*

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.

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 ECL model for the impairment of financial assets.

When adopting HKFRS 9, the Group has applied the standard retrospectively to items that existed at 1 January 2018 in accordance with the transition requirement and also applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of HKFRS 9 in relation to classification, measurement, and impairment are recognised in accumulated losses.

The adoption of HKFRS 9 has impacted the following areas:

- the classification and measurement of the Group's financial assets. Investments in certain unlisted equity investment in Hota (USA) Holding Corp. ("Hota (USA)") (note 21) previously classified as available-for-sale investments under HKAS 39 measured at fair value with gain or loss on fair value changes being recognised in other comprehensive income are now measured at fair value and classified as financial assets at fair value through profit or loss.

- HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the ECL model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECL earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost (including trade and other receivables, amount due from a joint venture, pledged bank deposits and cash and cash equivalents). For trade receivables, the Group applies a simplified model of recognising lifetime ECL as these items do not have a significant financing component. For other financial assets, the Group applies a general approach of recognising ECL.

Upon the adoption of HKFRS 9, the Group recognised additional ECL on the Group's trade receivables and other receivables of HK$101,553 and HK$563,762, respectively, which resulted in an increase in accumulated losses of HK$665,315 as at 1 January 2018.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. ADOPTION OF NEW AND AMENDED HKFRSs (Continued)

(a) New and amended HKFRSs that are effective for annual periods beginning or after 1 January 2018 (Continued)

HKFRS 9 "Financial Instruments" (Continued)

The reclassifications and remeasurements made to balances recognised in the consolidated statement of financial position at the date of initial application (1 January 2018) are summarised as follows:

	Measurement category Original HKAS 39 category	 New HKFRS 9 category	31 December 2017 (HKAS 39) HK$	Adoption of HKFRS 9 – remeasurement HK$	1 January 2018 (HKFRS 9) HK$
Non-current financial assets					
Long-term financial assets	Available-for-sale	FVTPL	–	–	–
Current financial assets					
Trade and other receivables, excluding prepayments	Amortised cost	Amortised cost	224,888,561	(665,315)	224,223,246
Pledged deposits	Amortised cost	Amortised cost	2,212,324	–	2,212,324
Cash and cash equivalents	Amortised cost	Amortised cost	2,283,931	–	2,283,931
			229,384,816	(665,315)	228,719,501
Total financial asset balances			229,384,816	(665,315)	228,719,501

There have been no changes to the classification or measurement of financial liabilities as a result of the application of HKFRS 9.

The following table summarises the impact of transition to HKFRS 9 on the opening balance of accumulated losses.

	Impact of adopting HKFRS 9 on opening balance HK$
Accumulated losses as at 31 December 2017	(409,329,715)
Recognition of ECL under HKFRS 9:	
– Trade receivables	(101,553)
– Other receivables, deposits and prepayments	(563,762)
Accumulated losses as at 1 January 2018	(409,995,030)

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out in note 3.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. ADOPTION OF NEW AND AMENDED HKFRSs (Continued)

(a) New and amended HKFRSs that are effective for annual periods beginning or after 1 January 2018 (Continued)

HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 "Revenue from Contracts with Customers" and the related "Clarifications to HKFRS 15 Revenue from Contracts with Customers" (hereinafter referred to as "HKFRS 15") replace HKAS 18 "Revenue", HKAS 11 "Construction Contracts", and several revenue-related Interpretations.

The Group has elected to use the cumulative effect transition method, with the cumulative effect of initial application recognised as an adjustment to the opening balance of accumulated losses at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKASs 11 and 18.

There have been no significant impact of the adoption of HKFRS 15 on when the Group recognises its revenue or on the Group's statement of financial position as at 1 January 2018.

(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 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[5]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
Amendments to HKFRS 3	*Definition of a Business*[4]
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2015-2017 Cycle*[1]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
HK(IFRIC) – Int 23	*Uncertainty over Income Tax Treatments*[1]

1 Effective for annual periods beginning on or after 1 January 2019

2 Effective for annual periods beginning on or after 1 January 2020

3 Effective for annual periods beginning on or after 1 January 2021

4 Effective for business combinations and asset acquisition for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

5 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 on or 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 consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. ADOPTION OF NEW AND AMENDED HKFRSs (Continued)

(b) Issued but not effective HKFRSs (Continued)

HKFRS 16 "Leases"

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

As disclosed in note 2.12, currently the Group classifies leases into operating leases and accounts for the lease arrangements accordingly. The Group enters into leases as the lessee.

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 lease liability and 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 properties 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.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by HKFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore 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.

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 on 1 January 2019 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information will not be restated. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets and not to perform a full review of existing leases and apply HKFRS 16 only to new contracts. Furthermore, the Group plans to use the practical expedient to account for leases for which the lease term ends within 12 months from the date of initial application as short-term lease. As disclosed in note 38, as at 31 December 2018, the Group's future minimum lease payments under non-cancellable operating leases amount to HK$3,024,021 for a number of properties, the majority of which is payable either within 1 year or between 2 to 5 years after the reporting date.

Upon the initial application of HKFRS 16, the Group plans to measure the rights-of-use assets as if HKFRS 16 had always been applied by using the incremental borrowing rate at initial application date and the opening balances of lease liabilities and the corresponding right-of-use assets will be adjusted, after taking account the effects of discounting, as at 1 January 2019.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. ADOPTION OF NEW AND AMENDED HKFRSS (Continued)

(b) Issued but not effective HKFRSs (Continued)

HKFRS 16 "Leases" (Continued)

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statement from 2019 onwards.

Amendments to HKAS 1 and HKAS 8 "Definition of Material"

The amendments clarify the definition of material and state that "information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity". Materiality depends on nature or magnitude of information or both.

The amendments also:

- introduce the concept of obscuring information when considering materiality and provide some examples of circumstances that may result in material information being obscured;

- clarify that materiality assessment will need to take into account how primary users could reasonably be expected to be influenced in making economic decisions by replacing the threshold "could influence" with "could reasonably be expected to influence" in the definition of material; and

- clarify that materiality assessment will need to take into account of information provided to primary users of general purpose financial statements (i.e. existing and potential investors, lenders and other creditors that rely on general purpose financial statements for much of the financial information they need).

Amendments to HKAS 1 and HKAS 8 are effective for annual reporting period beginning on or after 1 January 2020 and apply prospectively. The directors expect that the amendments have no material impact on the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Provision for impairment of trade and other receivables within the scope of ECL upon application of HKFRS 9

Since the initial adoption of HKFRS 9, the Group makes allowances on items subjects to ECL (including trade and other receivables and other financial assets measured at amortised cost) based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period as set out in note 2.8. As at 31 December 2018, the aggregate carrying amounts of trade and other receivables, excluding prepayments, amounted to HK$101,972,176 (net of ECL allowance of HK$2,527,299).

Before the adoption of HKFRS 9, the Group assesses at the end of each reporting period whether there is any objective evidence that trade and other receivables and other financial assets measured at amortised cost are impaired. In determining whether there is objective evidence of impairment, the Group is based on the evaluation by management of the collectability of the trade and other receivables. A considerable amount of estimates and judgment are required in assessing the ultimate realisation of these receivables, including assessing the current creditworthiness and the past collection history of each customer. If the financial conditions of these customers or debtors were to deteriorate resulting in an impairment of their ability to make payments, additional allowance will be required. As at 31 December 2017, the carrying amount of trade and other receivables, excluding prepayments, is HK$224,888,561.

When the actual future cash flows are different from expected, such difference will impact the carrying amount of trade and other receivables within the scope of ECL upon application of HKFRS 9 and credit losses in the periods in which such estimate has been changed.

(ii) Allowance for inventories

The management of the Group reviews the condition of inventories (note 22) at the end of the reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for raw materials and finished goods based primarily on the latest selling and purchase prices and on current market conditions. The Group carries out an inventory review on an item-by-item basis at the end of the reporting period and makes allowance for slow-moving inventories. If the market condition was to deteriorate, resulting in a lower net realisable value for such inventories, additional allowances may be required. As at 31 December 2018, the carrying amount of inventories is HK$1,331,159 (2017: HK$1,551,977).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

(iii) Impairment of property, plant and equipment

If circumstances indicate that the net book value of a long lived asset may not be recoverable, the asset may be considered "impaired" and an impairment loss may be recognised in accordance with HKAS 36 "Impairment of Assets". These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the higher of its fair value less costs of disposal and its value in use. It is difficult to precisely estimate fair value less cost of disposal because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant estimation relating to the level of sales volume, selling prices and the amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume, selling prices and the amount of operating costs. As at 31 December 2018, the carrying amount of property, plant and equipment was HK$6,980,393 (2017: HK$9,804,732).

5. 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, reversal of impairment loss on amount due from a joint venture, impairment loss on other receivables and prepayments, exchange gains/losses (net) and corporate income and expenses (net) not directly attributable to business activities of the operating segments are not included in arriving at the operating results of the operating segments.

Segment assets include all assets with the exception of intangible asset, tax recoverable, assets which are not attributable to the business activities of the operating segments and other assets which are managed on a group basis such as 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

5. SEGMENT INFORMATION (Continued)

Segment results, segment assets and segment liabilities

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

2018

	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	50,175,902	28,220	–	–	2,129,290	–	52,333,412
Reportable segment loss	(4,322,001)	(10,239)	(375,109)	(3,524,707)	(792,642)	–	(9,024,698)
Finance costs							(1,092,964)
Reversal of impairment loss on amount due from a joint venture							23,215,878
Impairment loss on other receivables and prepayments							(225,472)
Exchange gains, net							467,668
Corporate expenses, net							(11,688,719)
Profit before income tax							1,651,693
Reportable segment assets	35,374,085	3,840	–	2,326,502	77,542,362	24,233,396	139,480,185
Intangible asset							420,000
Tax recoverable							674,221
Cash and cash equivalents							837,849
Total consolidated assets							141,412,255
Reportable segment liabilities	38,881,018	16,500	–	151,384	2,128,604	4,666,774	45,844,280
Borrowings							6,457,045
Deferred tax liabilities							4,707
Total consolidated liabilities							52,306,032
Other information							
Depreciation	2,848,566	–	–	188,254	–	8,449	3,045,269
Interest income	2,518	3	–	31	113	122	2,787
Additions to non-current segment assets during the year	2,045,232	–	–	–	–	21,241	2,066,473

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

5. SEGMENT INFORMATION (Continued)

Segment results, segment assets and segment liabilities (Continued)

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 non-current segment assets during the year	4,349,108	–	–	4,646	–	33,400	4,387,154

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

5. SEGMENT INFORMATION (Continued)

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	
	2018	2017	**2018**	2017
	HK$	HK$	**HK$**	HK$
The PRC	**7,059,830**	335,287,338	**6,790,563**	9,389,313
Europe	**16,884,503**	14,910,869	**–**	–
Africa	**24,456,118**	27,125,349	**–**	–
Asia, excluding the PRC and Hong Kong	**3,675,024**	1,012,496	**65,134**	253,388
Hong Kong	**257,937**	2,624,270	**1,722,741**	582,031
Total	**52,333,412**	380,960,322	**8,578,438**	10,224,732

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:

	2018	2017
	HK$	HK$
Customer A	**24,456,118**	N/A[1]
Customer B	**16,290,244**	N/A[1]
Customer C	**N/A[2]**	246,143,733
Customer D	**N/A[2]**	85,514,486

1 The corresponding revenue did not contribute over 10% of total revenue of the Group in 2017.

2 These customers did not contribute any revenue to the Group in 2018.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

6. REVENUE

The Group's principal activities are disclosed in note 1. Revenue from transfer of goods at a point in time from external customers in the following product lines:

	2018 HK$	2017 HK$
Sales of smart cards	50,175,902	46,147,518
Sales of smart card application systems	28,220	87,950
Sales of petro-chemical products	2,129,290	334,724,854
	52,333,412	380,960,322

	2018 Sales of smart cards HK$	 Sales of smart card application systems HK$	 Sales of petro-chemical products HK$
Geographical markets			
The PRC	4,930,540	–	2,129,290
Europe	16,884,503	–	–
Africa	24,456,118	–	–
Asia, excluding the PRC and Hong Kong	3,675,024	–	–
Hong Kong	229,717	28,220	–
Total	50,175,902	28,220	2,129,290

7. OTHER INCOME

	2018 HK$	2017 HK$
Bank interest income	2,787	1,931
Government grants	206,029	–
Bad debts recovered	3,390,207	–
Reversal of impairment loss on trade receivables	99,514	–
Sundry income	678,424	233,451
	4,376,961	235,382

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

8. OTHER GAINS/(LOSSES), NET

	2018 HK$	2017 HK$
Gain on disposal of property, plant and equipment	110,000	345,175
Exchange gains/(losses), net	467,668	(830,664)
	577,668	(485,489)

9. FINANCE COSTS

	2018 HK$	2017 HK$
Interest charges on bank loans	119,963	175,535
Interest charges on other borrowings	973,001	611,103
	1,092,964	786,638

10. PROFIT/(LOSS) BEFORE INCOME TAX

	2018 HK$	2017 HK$
Profit/(Loss) before income tax is arrived at after charging:		
Auditor's remuneration		
– Audit services	730,401	731,660
– Non-audit services	121,800	120,000
Costs of inventories recognised as an expense *(note)*	40,579,503	369,634,249
Written-off of property, plant and equipment	253,409	185,831
Impairment losses on other receivables and prepayments	225,472	641,026
Depreciation	3,045,269	3,492,309
Bad debts written off	112,558	393,634
Employee benefit expenses *(note 14)*	25,397,184	22,734,114
Operating lease charges on land and buildings	4,833,785	5,222,895

Note:

Cost of inventories includes HK$13,899,034 (2017: HK$15,372,244) relating to depreciation, staff costs and operating lease charges, which amount is also included in the respective total amounts disclosed above and in note 14 for these expenses.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

11. INCOME TAX EXPENSE/(CREDIT)

	2018 HK$	2017 HK$
Current tax		
Hong Kong Profits Tax:		
Current year	181,097	–
Under-provision/(Over-provision) in prior year	59,212	(19,802)
	240,309	(19,802)
PRC Enterprise Income Tax:		
Current year	–	5,787
(Over-provision)/Under-provision in prior year	(6,749)	2,852
	(6,749)	8,639
Total income tax expense/(credit)	233,560	(11,163)

Reconciliation between income tax expense/(credit) and accounting profit/(loss) at applicable tax rates is as follows:

	2018 HK$	2017 HK$
Profit/(Loss) before income tax	1,651,693	(19,953,726)
Income tax at Hong Kong Profits Tax rate of 16.5% (2017: 16.5%)	272,529	(3,292,365)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(898,504)	(928,464)
Tax effect of non-deductible expenses	1,823,173	590,288
Tax effect of non-taxable income	(3,971,083)	(37,100)
Tax effect of tax losses not recognised	3,259,216	3,666,217
Utilisation of tax losses previously not recognised	(134,298)	–
Tax effect of other temporary differences not recognised	(4,936)	7,211
Effect of two-tiered profits tax rates regime	(165,000)	–
Under-provision/(Over-provision) in prior year	52,463	(16,950)
Income tax expense/(credit)	233,560	(11,163)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

11. INCOME TAX EXPENSE/(CREDIT) (Continued)

Notes:

(a) Hong Kong Profits Tax

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rate regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day.

Under the two-tiered profits tax rates regime, the first HK$2,000,000 of profits of qualifying entities will be taxed at 8.25%, and the profits above HK$2,000,000 will be taxed at 16.5%. The profits of entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at 16.5%. For the year ended 31 December 2018, Hong Kong profits tax of Intercard Limited, an indirect wholly-owned subsidiary of the Company, is calculated in accordance with the two-tiered profits tax rates regime.

For the year ended 31 December 2017, Hong Kong Profits Tax was calculated at a flat rate of 16.5% of the estimated assessable profit for the 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% (2017: 25%) for the year ended 31 December 2018.

12. DIVIDENDS

The Board does not recommend the payment of any dividend in respect of the year ended 31 December 2018 (2017: nil).

13. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

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

	2018	2017
Profit/(Loss) attributable to owners of the Company (HK$)	1,614,760	(19,770,206)
Weighted average number of ordinary shares in issue *(note)*	502,662,363	419,443,185
Basic earnings/(loss) per share (expressed in HK cents per share)	0.321	(4.713)

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 2017, the beginning of the earliest period reported (note 30(a)).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

13. EARNINGS/(LOSS) PER SHARE (Continued)

(b) Diluted earnings/(loss) per share

Diluted earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to owners of the Company by the weighted average number of ordinary shares (diluted) in issues during the year, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2018	2017
Weighted average number of ordinary shares (basic) as at 31 December	502,662,363	419,443,185
Effect of deemed issue of shares under the Company's share option scheme	6,133,302	–
Weighted average number of ordinary shares (diluted) as at 31 December	508,795,665	419,443,185

Diluted earnings/(loss) per share

	2018	2017
Profit/(Loss) attributable to owners of the Company (HK$)	1,614,760	(19,770,206)
Weighted average number of ordinary shares (diluted) as at 31 December	508,795,665	419,443,185
Diluted earnings/(loss) per share (expressed in HK cents per share)	0.317	(4.713)

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

14. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' REMUNERATION)

	2018 HK$	2017 HK$
Salaries, wages and other benefits	21,085,623	21,593,507
Contributions to defined contribution retirement plans	972,561	1,140,607
Share-based payments (note 31)	3,339,000	–
	25,397,184	22,734,114

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

15. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' emoluments for the years ended 31 December 2018 and 2017 are as follows:

2018

	Fee HK$	Salaries, allowances and benefits in kind HK$	Discretionary bonus HK$	Retirement scheme contributions HK$	Share-based payments HK$	Total HK$
Executive Directors:						
Lily Wu *(note a)*	–	338,613	–	16,931	399,304	754,848
Chang Wei Wen	–	1,203,928	54,000	49,151	399,304	1,706,383
Yang Meng Hsiu	–	287,692	–	28,151	399,304	715,147
	–	1,830,233	54,000	94,233	1,197,912	3,176,378
Independent Non-executive Directors:						
Wong Ka Wai, Jeanne	120,000	–	–	–	39,930	159,930
Leung Ka Kui, Johnny	120,000	–	–	–	39,930	159,930
Chan Siu Wing, Raymond	120,000	–	–	–	39,930	159,930
	360,000	–	–	–	119,790	479,790
	360,000	1,830,233	54,000	94,233	1,317,702	3,656,168

2017

	Fee HK$	Salaries, allowances and benefits in kind HK$	Discretionary bonus HK$	Retirement scheme contributions HK$	Share-based payments HK$	Total HK$
Executive Directors:						
Lily Wu *(note a)*	–	338,613	–	16,931	–	355,544
Chang Wei Wen	–	1,190,883	48,000	49,227	–	1,288,110
Wang Jia Hua *(note b)*	–	2,581	–	129	–	2,710
Yang Meng Hsiu	–	287,692	–	28,151	–	315,843
	–	1,819,769	48,000	94,438	–	1,962,207
Independent Non-executive Directors:						
Wong Ka Wai, Jeanne	120,000	–	–	–	–	120,000
Leung Ka Kui, Johnny	120,000	–	–	–	–	120,000
Chan Siu Wing, Raymond	120,000	–	–	–	–	120,000
	360,000	–	–	–	–	360,000
	360,000	1,819,769	48,000	94,438	–	2,322,207

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

15. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

Notes:

(a) Ms. Lily Wu is also the chief executive of the Company and her emoluments disclosed above include those for services rendered by her as the chief executive for the years ended 31 December 2018 and 2017.

(b) Mr. Wang Jia Hua ceased to be Managing Director on 4 January 2017 upon the end of his service agreement.

During the year ended 31 December 2018 and 2017, no remuneration has been paid by the Group to the directors as an inducement to join or upon joining the Group and no directors have waived any remuneration.

The value of share options granted to directors is measured according to the Group's accounting policy for share-based employee compensation set out in note 2.19. The details of these benefits in kind including the principal terms and number of options granted are disclosed in note 31.

16. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals include two (2017: two) director(s) whose remuneration is disclosed in note 15. The aggregate emoluments of the remaining three (2017: three) highest paid individuals are as follows:

	2018 HK$	2017 HK$
Salaries and allowances	1,846,868	1,704,818
Contributions to retirement scheme	54,000	54,091
Share-based payments	532,405	–
	2,433,273	1,758,909

The emoluments fell within the following bands:

	Number of individuals 2018	2017
Emolument bands		
Nil – HK$1,000,000	2	3
HK$1,000,001 – HK$1,500,000	1	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

17. RETIREMENT SCHEMES

Under the Mandatory Provident Fund Schemes Ordinance regulated by the Mandatory Provident Fund Schemes Authority in Hong Kong, with effect from 1 December 2000, the Group participates in a MPF Scheme operated by an approved trustee in Hong Kong and makes contributions for its eligible employees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income. The cap of monthly relevant income is HK$30,000 during the year (2017: HK$30,000). Contributions to the scheme vest immediately.

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefits scheme being operated by the local PRC government. The subsidiaries are required to contribute specified percentage of the average basic salary to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions.

During the year ended 31 December 2018, the aggregate amount of employer's contribution made by the Group is HK$972,561 (2017: HK$1,140,607).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

18. PROPERTY, PLANT AND EQUIPMENT

	Printing and testing equipment HK$	Office equipment HK$	Furniture and fixtures HK$	Leasehold improvement HK$	Motor vehicles HK$	Total HK$
At 1 January 2017						
Cost	86,164,530	2,771,553	2,321,859	1,094,579	2,736,588	95,089,109
Accumulated depreciation	(78,746,333)	(2,507,428)	(1,794,765)	(1,094,579)	(2,537,732)	(86,680,837)
Net book amount	7,418,197	264,125	527,094	–	198,856	8,408,272
Year ended 31 December 2017						
Opening net book amount	7,418,197	264,125	527,094	–	198,856	8,408,272
Additions	1,795,995	60,055	132,401	2,398,703	–	4,387,154
Written-off	(175,957)	(9,874)	–	–	–	(185,831)
Depreciation	(2,878,030)	(102,107)	(204,886)	(230,920)	(76,366)	(3,492,309)
Exchange differences	547,471	6,248	25,071	92,836	15,820	687,446
Closing net book amount	6,707,676	218,447	479,680	2,260,619	138,310	9,804,732
At 31 December 2017 and 1 January 2018						
Cost	80,444,824	2,244,102	2,440,677	3,593,097	2,803,601	91,526,301
Accumulated depreciation	(73,737,148)	(2,025,655)	(1,960,997)	(1,332,478)	(2,665,291)	(81,721,569)
Net book amount	6,707,676	218,447	479,680	2,260,619	138,310	9,804,732
Year ended 31 December 2018						
Opening net book amount	6,707,676	218,447	479,680	2,260,619	138,310	9,804,732
Additions	861,823	26,605	–	–	–	888,428
Written-off	(253,409)	–	–	–	–	(253,409)
Depreciation	(2,176,015)	(92,371)	(203,267)	(494,761)	(78,855)	(3,045,269)
Exchange differences	(300,270)	(1,969)	(5,208)	(99,687)	(6,955)	(414,089)
Closing net book amount	4,839,805	150,712	271,205	1,666,171	52,500	6,980,393
At 31 December 2018						
Cost	41,143,211	1,343,039	2,093,253	2,928,269	2,449,247	49,957,019
Accumulated depreciation	(36,303,406)	(1,192,327)	(1,822,048)	(1,262,098)	(2,396,747)	(42,976,626)
Net book amount	4,839,805	150,712	271,205	1,666,171	52,500	6,980,393

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

19. INTANGIBLE ASSET

	PRC driving licence HK$
At 1 January 2017, 31 December 2017 and 31 December 2018	
Cost	420,000
Accumulated impairment	–
Net book amount	420,000

The intangible asset represents the acquisition cost of a driving licence in the PRC. The PRC driving licence is considered to have an indefinite economic life as there is no foreseeable limit on the period of time over which the driving licence is expected to generate economic benefit to the Group and the licence is renewable at minimal cost. Accordingly it is not amortised.

20. INTERESTS IN ASSOCIATES

	2018 HK$	2017 HK$
Share of net assets	–	–

Details of the Group's associates, which is unlisted, as at 31 December 2018 and 2017 are as follows:

Name of company	Place of establishment	Particulars of paid-up registered capital	Group's effective interest	Principal activities
力欣房地產經紀（上海）有限公司 *(note a)*	The PRC	Renminbi ("RMB") 5,000,000	20% (2017: 20%)	Inactive
張家港保税區騏璉貿易有限公司 *(notes a & b)*	The PRC	Nil	Nil (2017: 30%)	Not yet commenced business and disposed by the Group in 2018

Notes:

(a) The associates have a reporting date of 31 December. Financial information is not available to disclose in the financial statements as the associates were dormant and inactive or has not yet commenced business during the years ended 31 December 2018 and 2017.

(b) On 23 November 2017, Shanghai Phoenitron Petroleum & Chemical Company Limited ("Shanghai Phoenitron"), a non-wholly owned subsidiary of the Company, set up an associate, 張家港保税區騏璉貿易有限公司. The total registered capital attributable to Shanghai Phoenitron amounted to RMB2,000,000. During the year ended 31 December 2018, the Group disposed its entire interest in the associate to a third party with no consideration. As of the date of the disposal, no capital has been paid-up.

The Group has not incurred any contingent liabilities or other commitments relating to its investment in these associates.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

21. LONG-TERM FINANCIAL ASSETS

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 2018, the Group is interested in (i) 83.33% (2017: 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% (2017: 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% (2017: 57.81%) of the entire share capital of Hota (USA) as at 31 December 2018 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.

As at 31 December 2017, the Group's investment in the Series A preferred shares of Hota (USA) ("Series A preferred shares") are accounted for as an available-for-sale financial asset which are stated at fair value, and the derivative component arising from the conversion right of the Series A preferred shares (the "Derivative Component") are accounted for as financial assets at fair value through profit or loss. The fair value of the Series A preferred shares and the Derivative Component were nil as at 31 December 2017. The Group's investment in the common shares of Hota (USA) are accounted for as interest in a joint venture and was fully impaired in prior years.

On 1 January 2018 (the date of initial application of HKFRS 9), the Series A preferred shares has been reclassified from available-for-sale financial assets to financial assets at fair value through profit or loss. The reclassification has no impact on the carrying amount of the investment as at 1 January 2018.

The fair value of financial assets at fair value through profit or loss are determined using adjusted net asset method with inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3). The effects of unobservable inputs are not significant for equity investments.

The Resources Recycling Business carried out by Hota Auto Recycling Corporation (張家港永峰泰環保科技有限公司, "HARC"), the principal subsidiary of Hota (USA), has stopped commercial production since 2014 due to unfavorable market environment. During the year ended 31 December 2018, HARC is under liquidation. Based on the latest available information from the Group's PRC legal advisor and the bankruptcy administrator of HARC, the director's considered the fair value of the Series A preferred shares and the Derivative Component to be nil as at 31 December 2018.

The Group has not incurred any contingent liabilities or other commitments relating to its investment in the joint venture. No share of profits/losses of Hota Group is recognised by the Group for the years ended 31 December 2018 and 2017. The Group has not recognised profits amounting to approximately HK$68,656,159 (primarily attributable to the pro-rata share of profit arised from the accounting treatment for derecognising assets and liabilities of HARC from Hota Group) for the year ended 31 December 2018 (2017: share of losses HK$22,084,549) for the joint venture as the share of profits does not exceed the accumulated share of losses not recognised.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

21. LONG-TERM FINANCIAL ASSETS (Continued)

Details of Hota (USA) and its principal subsidiary as at 31 December 2018 and 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 United States dollar ("USD") 34	35.29% (2017: 35.29%)	Investment holding
		Series A preferred shares USD12,000,000	83.33% (2017: 83.33%)	
HARC*	The PRC	USD20,000,000		Inactive and under liquidation

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

Hota Group has a reporting date of 31 December. Summarised unaudited financial information in relation to the joint venture is presented below:

	2018 HK$	2017 HK$
As at 31 December		
Non-current assets	–	226,156,565
Current assets	496,967	36,001,047
Current liabilities	(374,723,730)	(714,139,939)
Non-current liabilities	(93,000,000)	(195,044,515)
Net liabilities	(467,226,763)	(647,026,842)
Included in the above amounts are:		
Cash and cash equivalents	2,114	32,978
Current financial liabilities (excluding trade and other payable)	(374,001,817)	(500,761,347)
Non-current financial liabilities (excluding other payable and provision)	(93,000,000)	(190,514,981)
Year ended 31 December		
Revenue	–	–
Profit/(Loss) for the year and total comprehensive income/(loss) *(note)*	194,548,480	(62,580,189)
Included in the above amounts are:		
Depreciation and amortisation	840,866	5,166,534
Interest expense	–	45,939,670

Note: Amount included for the year ended 31 December 2018 is the profit arised from the accounting treatment for derecognising assets and liabilities of HARC from Hota Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

22. INVENTORIES

	2018 HK$	2017 HK$
Raw materials	573,555	331,034
Work-in-progress	743,259	995,424
Finished goods	14,345	225,519
	1,331,159	1,551,977

23. TRADE AND OTHER RECEIVABLES

	2018 HK$	2017 HK$
Trade receivables	14,793,651	111,988,394
Less: ECL allowance/loss allowance	(2,039)	–
Trade receivables, net *(notes (a) & (c))*	14,791,612	111,988,394
Other receivables, deposits and prepayments	94,508,358	119,795,919
Less: ECL allowance/loss allowance *(note (b))*	(2,525,260)	(1,736,026)
Other receivables, net *(note (c))*	91,983,098	118,059,893
	106,774,710	230,048,287

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 ECL allowance (2017: net of loss allowance) is as follows:

	2018 HK$	2017 HK$
0 – 30 days	3,867,673	104,136,456
31 – 90 days	7,908,436	6,640,809
Over 90 days	3,017,542	1,211,129
Less: ECL allowance/loss allowance	(2,039)	–
	14,791,612	111,988,394

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

23. TRADE AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(a) *(Continued)*

The movement in the ECL allowance (2017: loss allowance) of trade receivables is as follows:

	2018 HK$	2017 HK$
Balance at 1 January calculated under HKAS 39	–	–
Amounts restated through opening accumulated losses	101,553	–
Adjusted balance at 1 January calculated under HKFRS 9	101,553	–
ECL/Loss allowance reversed during the year	(99,514)	–
Balance at 31 December	2,039	–

During the year ended 31 December 2018, management has determined trade receivables of HK$112,558 (2017: HK$393,634) as individually impaired and has been written off as bad debts.

The ageing analysis of the Group's trade receivables net of ECL allowance (2017: net of loss allowance), based on due date is as follows:

	2018 HK$	2017 HK$
Neither past due nor impaired	10,037,940	110,405,434
1 – 30 days past due	3,507,500	1,042,637
31 – 90 days past due	1,234,584	193,693
Over 90 days past due	11,588	346,630
	14,791,612	111,988,394

(b) The movement in the ECL allowance (2017: loss allowance) of other receivables and prepayments is as follows:

	2018 HK$	2017 HK$
Balance at 1 January calculated under HKAS 39	1,736,026	1,095,000
Amounts restated through opening accumulated losses	563,762	–
Adjusted balance at 1 January calculated under HKFRS 9	2,299,788	1,095,000
ECL/Loss allowance recognised during the year	225,472	641,026
Balance at 31 December	2,525,260	1,736,026

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

23. TRADE AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(c) Included in the Group's other receivables as at 31 December 2018 is receivables from a petroleum company (the "Petroleum Company") of RMB68,186,400 (equivalent to approximately HK$77,484,545) which is unsecured, interest-free and has no fixed repayment terms, except for an amount of RMB19,436,400 (equivalent to approximately HK$22,086,818) which is due on or before 10 March 2019. The amount due is in substance guaranteed by a customer (the "Shanghai Customer"). No expected credit loss allowance was recognised against these receivables as at 31 December 2018. Details of the balance are summarised below:

Shanghai Phoenitron is an indirect non-wholly owned subsidiary of the Company, in which 75% of equity interest is held by Phoenitron Resources Company Limited ("Phoenitron HK"), an indirect wholly-owned subsidiary of the Company, and 25% of equity interest is held by Mr. Sun.

As at 10 December 2018, Shanghai Phoenitron has outstanding trade receivables due from the Shanghai Customer of RMB84,744,000 (equivalent to approximately HK$96,300,000) (the "Outstanding Amount") and outstanding trade payables due to the Petroleum Company of RMB307,600 (equivalent to approximately HK$349,546).

On 10 December 2018, Shanghai Phoenitron, the Shanghai Customer and the Petroleum Company entered into an agreement in which the Shanghai Customer has assigned part of its trade receivable of RMB84,744,000 (equivalent to approximately HK$96,300,000) from the Petroleum Company to Shanghai Phoenitron, and Shanghai Phoenitron has agreed to assume all rights and benefits of Shanghai Customer's trade receivables from the Petroleum Company of RMB84,744,000 (equivalent to approximately HK$96,300,000), as settlement of the Outstanding Amount, with full recourse if the Petroleum Company failed to make full settlement to Shanghai Phoenitron. In this respect, the Group derecognised trade receivables of RMB84,744,000 (equivalent to approximately HK$96,300,000) from the Shanghai Customer and recognised other receivables from the Petroleum Company of the same amount (the "Petroleum Company Receivables") during the year ended 31 December 2018.

On 17 December 2018, Shanghai Phoenitron completed a share reduction of which RMB48,750,000 (equivalent to approximately HK$55,397,727) should be payable to Phoenitron HK and RMB16,250,000 (equivalent to approximately HK$18,465,909) should be payable to Mr. Sun.

On 20 December 2018, Shanghai Phoenitron, the Petroleum Company, Phoenitron HK and Mr. Sun entered into an agreement in which (i) Phoenitron HK and Mr. Sun have agreed to assume all rights and benefits of part of the Petroleum Company Receivables of RMB65,000,000 (equivalent to approximately HK$73,863,636) as settlement of the share reduction of Shanghai Phoenitron as mentioned above, and (ii) Shanghai Phoenitron and the Petroleum Company have agreed to offset the trade payables to the Petroleum Company of RMB307,600 (equivalent to approximately HK$349,546) against other receivables from the Petroleum Company. In this respect, in the books of Shanghai Phoenitron, the amount due from the Petroleum Company decreased from RMB84,744,000 (equivalent to approximately HK$96,300,000) to RMB19,436,400 (equivalent to approximately HK$22,086,818). Meanwhile, an amount due from the Petroleum Company of RMB48,750,000 (equivalent to approximately HK$55,397,727) and RMB16,250,000 (equivalent to approximately HK$18,465,909) was recognised in the books of Phoenitron HK and Mr. Sun, respectively.

In this respect, the Group has total other receivables from the Petroleum Company of RMB68,186,400 (equivalent to approximately HK$77,484,545) as at 31 December 2018.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

24. AMOUNT DUE FROM A JOINT VENTURE

As at 31 December 2018 and 2017, 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 at 10% per annum (2017: 10% per annum) and 19% per annum (2017: 19%), respectively.

As at 31 December 2017, loans to and interest receivables from Hota Group of HK$375,887,468 was fully impaired in prior years and the Group ceased to recognise loan interest income since the 3rd quarter of 2016 as the amounts were not considered to be recoverable.

As disclosed in note 21, HARC was under liquidation during the year ended 31 December 2018. Based on the latest available information from the Group's PRC legal advisor and the bankruptcy administrator of HARC, the Group is expected to receive partial repayment of approximately RMB21.0 million (equivalent to approximately HK$23,933,895, the "Proposed Distribution"). The Proposed Distribution was approved by the People's Court of Zhangjiagang City, Jiangsu Province (江蘇省張家港市人民法院), in January 2019. On 4 March 2019, the Group has assigned the Proposed Distribution to a third party at a consideration of approximately RMB20.4 million (equivalent to approximately HK$23,215,878) (the "Consideration"). The above transaction was completed in March 2019, and the Consideration was settled by cash of approximately RMB14.0 million (equivalent to approximately HK$15,900,878) and the Group has set off approximately RMB6.4 million (equivalent to approximately HK$7,315,000) against its other borrowings from shareholders of the Company. For details, please refer to the Company's announcement dated 4 March 2019. Accordingly, the Group has made a reversal of impairment of HK$23,215,878 during the year ended 31 December 2018 (2017: nil).

25. PLEDGED BANK DEPOSITS

As at 31 December 2017, pledged bank deposits represent bank deposits pledged to secure general banking facilities granted to the Group and were denominated in USD (note 37). The pledged bank deposits were released during the year ended 31 December 2018.

26. CASH AND CASH EQUIVALENTS

	2018 HK$	2017 HK$
Cash at banks and in hand	837,849	2,283,931
Denominated in:		
RMB	355,260	643,074
Hong Kong Dollars	292,605	1,184,118
USD	86,740	442,874
New Taiwan Dollar ("NTD")	103,244	13,865
	837,849	2,283,931

As at the reporting date, bank balances and cash of the Group denominated in RMB amounted to HK$355,260 (2017: HK$643,074). RMB is not a freely convertible currency. Under the Mainland China's Foreign Exchange Control Regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

27. TRADE AND OTHER PAYABLES

	2018 HK$	2017 HK$
Trade payables	29,739,997	126,816,719
Other payables and accrual	16,104,283	13,130,311
	45,844,280	139,947,030

Included in other payables and accrual of the Group is HK$4,166,849 (2017: HK$2,379,891) of legal and professional fee payables and HK$3,166,412 (2017: HK$2,213,780) of salaries and wages payables.

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:

	2018 HK$	2017 HK$
0 – 30 days	1,470,892	103,700,436
31 – 60 days	957,825	1,908,810
61 – 90 days	3,011,715	1,185,752
Over 90 days	24,299,565	20,021,721
	29,739,997	126,816,719

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

28. BORROWINGS

	2018 HK$	2017 HK$
Current liabilities		
Bank loans, secured *(note (a))*	–	6,941,675
Other borrowings, unsecured *(note (b))*	6,457,045	6,981,359
Total borrowings	6,457,045	13,923,034

Notes:

(a) The analysis of the carrying amounts of bank loans is as follows:

	2018 HK$	2017 HK$
Current liabilities		
Portion of term loans due for repayment within one year	–	6,941,675

Among the Group's bank borrowings as at 31 December 2018, nil (2017: HK$6,941,675) of the Group's bank borrowings were arranged at floating rates (2017: LIBOR plus 1.75% per annum).

(b) At the reporting dates, the amounts due are unsecured, carries interest at 0% to 20% per annum (2017: carries interest at 0% to 18% per annum) and repayable on demand.

As at 31 December 2018, included in other borrowings were non-interest bearing borrowings and interest-bearing borrowings at 3% per annum from minority shareholders of HK$80,000 (2017: HK$200,000) and nil (2017: HK$1,250,000) respectively, and nil (2017: HK$269,231) non-interest bearing borrowing from a substantial shareholder of the Company.

29. DEFERRED TAX

At the reporting dates, the Group's recognised deferred tax liabilities arise from depreciation allowance in excess of accounting depreciation. The Group has not recognised deferred tax assets in respect of tax losses of HK$97,488,350 as at 31 December 2018 (2017: HK$92,469,768). Deferred tax assets have not been recognised because it is not probable that future taxable profit will be available against which the Group can utilise benefits therefrom. Under the current tax legislation in Hong Kong, the tax losses amounting to HK$21,833,252 (2017: HK$19,477,228) do not have expiry period. Under the current tax legislation in the PRC, the tax losses amounting to HK$64,368,131 (2017: HK$61,821,990) can be carried forward for five years from the year when the corresponding loss was incurred. Under the current tax legislation in Taiwan, the tax losses amounting to HK$11,286,967 (2017: HK$11,170,550) can be carried forward for ten years from the year when the corresponding loss was incurred.

As at 31 December 2018, deferred tax liabilities have not been established for the withholding tax that would be payable on the unremitted earnings of HK$17,207,279 (2017: HK$19,880,457) of certain PRC subsidiaries because the Company controls the dividend policy of these subsidiaries and it is not probable that these subsidiaries will distribute such earnings in foreseeable future.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

30. SHARE CAPITAL

	2018 Par value per share HK$	2018 Number of shares	2018 Nominal value HK$	2017 Par value per share HK$	2017 Number of shares	2017 Nominal value HK$
Authorised:						
Ordinary shares						
At 1 January	0.20	1,500,000,000	300,000,000	0.02	5,000,000,000	100,000,000
Share consolidation *(note (a))*	–	–	–	–	(4,500,000,000)	–
Increase in consolidation share *(note (a))*	–	–	–	0.20	1,000,000,000	200,000,000
At 31 December	0.20	1,500,000,000	300,000,000	0.20	1,500,000,000	300,000,000

	2018 Par value per share HK$	2018 Number of shares	2018 Nominal value HK$	2017 Par value per share HK$	2017 Number of shares	2017 Nominal value HK$
Issued and fully paid:						
Ordinary shares						
At 1 January	0.20	451,292,500	90,258,500	0.02	3,762,925,000	75,258,500
Share consolidation *(note (a))*	–	–	–	–	(3,386,632,500)	–
Issue of shares upon shares subscription *(notes (b) & (c))*	0.20	75,000,000	15,000,000	0.20	75,000,000	15,000,000
At 31 December	0.20	526,292,500	105,258,500	0.20	451,292,500	90,258,500

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

30. SHARE CAPITAL (Continued)

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 the subscription agreements entered into between the Company and four subscribers (the "2017 Subscribers") on 9 May 2017, 75,000,000 new ordinary shares of the Company were allotted and issued at a price of HK$0.20 per share to the 2017 Subscribers on 5 June 2017 for a total consideration of HK$15,000,000, which resulted in an increase in share capital by HK$15,000,000 and decrease in share premium by HK$25,000 for netting off the cost of share subscription amount. The consideration were settled by cash of HK$8,380,000 and the Group has set off an aggregate amount of HK$6,340,000 against its other borrowings from shareholders (note 41) and interest charges on other borrowings of HK$280,000.

(c) Pursuant to subscription agreements entered into between the Company and four subscribers (the "2018 Subscribers") on 16 April 2018, 75,000,000 new ordinary shares of the Company were allotted and issued at a price of HK$0.20 per share to the 2018 Subscribers on 26 April 2018 for a total cash consideration of HK$15,000,000, which resulted in an increase in share capital by HK$15,000,000 and decrease in share premium by HK$25,000 for netting off the cost of share subscription amount.

The share capital of the Company comprises only of fully paid ordinary shares of HK$105,258,500 (2017: HK$90,258,500). All shares are equally eligible to receive dividends and to the repayment of capital and each of the shares are entitled to one vote at shareholders' meeting of the Company.

31. SHARE OPTIONS

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 summary of the terms of the share option scheme is set out below.

The purpose of the New Share Option Scheme is to recognise and motivate the contribution of employees to the growth of the Group. Under the New Share Option Scheme, the board of directors which shall include the independent non-executive directors may, at its discretion, invite any employees including any executive directors of any companies in the Group to take up options at HK$1.00 to subscribe for shares in the Company 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, which must be a trading day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediate preceding the date of grant; and (iii) the nominal value of a share.

The total number of shares which may be issued upon exercise of all options which may be granted under the New Share Option Scheme and any other share option schemes of the Company shall not exceed 10% of the total number of shares in issue as at the date of approval of the New Share Option Scheme.

The option period in respect of any particular option shall be determined by the board of directors, provided that no option shall be exercisable after ten years from the date of its grant.

The share options are fully vested at the date of grant. All share-based employee compensation will be settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options other than by issuing the Company's ordinary shares.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

31. SHARE OPTIONS (Continued)

Summary of the share options outstanding during the year and in prior year are as follows:

2018

Name of participant	As at 1 January 2018	Granted during the year	Lapsed during the year	As at 31 December 2018	Date of grant	Exercisable period	Exercise price HK$
Directors							
Lily Wu	500,000	–	(500,000)	–	17 November 2008	17 November 2008 to 16 November 2018	1.86
	–	4,500,000	–	4,500,000	3 January 2018	3 January 2018 to 2 January 2028	0.20
Chang Wei Wen	–	4,500,000	–	4,500,000	3 January 2018	3 January 2018 to 2 January 2028	0.20
Yang Meng Hsiu	–	4,500,000	–	4,500,000	3 January 2018	3 January 2018 to 2 January 2028	0.20
Chan Siu Wing, Raymond	–	450,000	–	450,000	3 January 2018	3 January 2018 to 2 January 2028	0.20
Leung Ka Kui, Johnny	–	450,000	–	450,000	3 January 2018	3 January 2018 to 2 January 2028	0.20
Wong Ka Wai, Jeanne	–	450,000	–	450,000	3 January 2018	3 January 2018 to 2 January 2028	0.20
	500,000	14,850,000	(500,000)	14,850,000			
Other employees							
In aggregate	–	22,779,250	–	22,779,250	3 January 2018	3 January 2018 to 2 January 2028	0.20
	500,000	37,629,250	(500,000)	37,629,250			

	As at 1 January 2018 HK$	Granted during the year HK$	Lapsed during the year HK$	As at 31 December 2018 HK$
Weighted average exercise price per share	1.86	0.20	1.86	0.20
Weighted average remaining contractual life of options outstanding as at 31 December 2018				9.01 years
Number of options exercisable as at 31 December 2018				37,629,250
Weighted average exercise price per share of options exercisable as at 31 December 2018				HK$0.20

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

31. SHARE OPTIONS (Continued)

2017

Name of participant	As at 1 January 2017	Granted during the year	Lapsed during the year	As at 31 December 2017	Date of grant	Exercisable period	Exercise price HK$
Director							
Lily Wu	500,000*	–	–	500,000	17 November 2008	17 November 2008 to 16 November 2018	1.86*

	As at 1 January 2017 HK$	Granted during the year HK$	Lapsed during the year HK$	As at 31 December 2017 HK$
Weighted average exercise price per share	1.86*	–	–	1.86
Weighted average remaining contractual life of options outstanding as at 31 December 2017				0.95 years
Number of options exercisable as at 31 December 2017				500,000
Weighted average exercise price per share of options exercisable as at 31 December 2017				HK$1.86

* Adjusted for the share consolidation in 2017 as disclosed in note 30(a).

No shares were exercised or forfeited during the years ended 31 December 2018 and 2017.

During the year ended 31 December 2018, 37,629,250 options were granted on 3 January 2018 with estimated total fair values of approximately HK$3,339,000. The exercise price of the share options granted is HK$0.20 per share. The share options are valid for a period of 10 years and fully vested at the grant date.

The fair values of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair values were measured using the Binomial Option Pricing Model. The inputs into the model were as follows:

	3 January 2018
Share price at grant date	HK$0.131
Expected volatility	74.77%
Expected option life	10 years
Risk-free interest rate	1.82%
Expected dividend yield	–

Expected volatility was determined by using historical volatility of the Company's share price, adjusted for any expected changes to future volatility based on publicly available information. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability and behavioural considerations. Expected dividends are based on historical dividend. Changes in the subjective input assumptions could materially affect the fair value estimate. The Group recognised a total expense of HK$3,339,000 (2017: nil) for the year ended 31 December 2018 in relation to share options granted by the Company and the share-based payments were included in "Administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

32. RESERVES

The Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

Share premium represents the excess of the net proceeds from issuance of the shares of the Company over its par value, less any dividends paid out of the share premium account and any premium paid for the repurchase of shares of the Company.

Contributed surplus of the Group represents the difference between the nominal value of the share capital and share premium of the subsidiaries acquired pursuant to a group reorganisation conducted in previous years over the nominal value of the share capital of the Company issued in exchange therefore, less share issue expenses.

Translation reserve of the Group represents the exchange differences on translation of the financial statements of the PRC subsidiaries and a Taiwan subsidiary.

Share option reserve is set up in accordance with the accounting policy set out in note 2.19.

Certain portion of the retained earnings of the Company's PRC subsidiaries is restricted for distribution. Under the relevant PRC laws and regulations, the PRC subsidiaries are required to appropriate at least 10% of profit after tax to general reserve fund until reaching 50% of the registered capital. The general reserve fund can be applied to set-off accumulated losses and to convert into paid-in capital. Such restricted profits included in the Group's accumulated losses amounted to HK$11,347,376 (2017: HK$12,002,032).

The Company

	Share premium HK$	Contributed surplus HK$	Share option reserve HK$	Other reserves HK$	Accumulated losses HK$	Total HK$
At 1 January 2017	363,367,716	24,190,659	1,360,008	7	(391,283,967)	(2,365,577)
Loss for the year	–	–	–	–	(15,404,371)	(15,404,371)
Issue of shares upon share subscription *(note 30(b))*	(25,000)	–	–	–	–	(25,000)
At 31 December 2017 and 1 January 2018	363,342,716	24,190,659	1,360,008	7	(406,688,338)	(17,794,948)
Loss for the year	–	–	–	–	(1,842,099)	(1,842,099)
Issue of shares upon share subscription *(note 30(c))*	(25,000)	–	–	–	–	(25,000)
Share-based payments *(note 31)*	–	–	3,339,000	–	–	3,339,000
Lapse of employee share options *(note 31)*	–	–	(1,360,008)	–	1,360,008	–
At 31 December 2018	363,317,716	24,190,659	3,339,000	7	(407,170,429)	(16,323,047)

Share premium represents the excess of the net proceeds from issuance of the shares of the Company over its par value, less any dividends paid out of the share premium account and any premium paid for the repurchase of shares of the Company.

Contributed surplus of the Company represents the difference between the combined net assets value of the subsidiaries acquired pursuant to a group reorganisation conducted in previous years over the nominal value of the share capital of the Company issued in exchange therefore, less share issue expenses.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

33. COMPANY LEVEL STATEMENT OF FINANCIAL POSITION

	Notes	2018 HK$	2017 HK$
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		43,408	30,617
Interests in subsidiaries	34	75,480,419	76,447,930
		75,523,827	76,478,547
Current assets			
Prepayments, deposits and other receivables		974,110	3,355,450
Amount due from a joint venture		23,215,878	–
Cash and cash equivalents		73,290	438,789
		24,263,278	3,794,239
Current liabilities			
Other payables		4,666,777	2,849,359
Borrowings		5,775,000	4,550,000
Amount due to a subsidiary		409,875	409,875
		10,851,652	7,809,234
Net current assets/(liabilities)		13,411,626	(4,014,995)
Net assets		88,935,453	72,463,552
EQUITY			
Share capital	30	105,258,500	90,258,500
Reserves	32	(16,323,047)	(17,794,948)
Total equity		88,935,453	72,463,552

Approved and authorised for issue by the board of direction on 26 March 2019.

Lily Wu
Director

Chang Wei Wen
Director

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

34. INTERESTS IN SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2018 and 2017 are as follows:

Name of company	Place of incorporation/ establishment and operation and kind of legal entity	Particulars of issued capital/paid-up registered capital	Percentage of interest held by the Company	Principal activities
Cardlink Technology (HK) Limited	Hong Kong, limited liability company	HK$10,000	100%	Investment holding
Elegant Future (Hong Kong) Limited	Hong Kong, limited liability company	HK$1	100%	Investment holdings and trading of scrap vehicles
Elegant Future (Taiwan) Company Limited	Taiwan, limited liability company	NTD60,000,000	100%	Trading and dismantling of scrap metals
Intercard Limited	Hong Kong, limited liability company	HK$10,666,667	100%	Sales of smart cards, system development and provision of research and development, marketing and sales
Phoenitron HK	Hong Kong, limited liability company	HK$10,000	100%	Investment holding
PMIS Limited	Hong Kong, limited liability company	HK$10,000	100%	Development and provision of smart card application systems
Shanghai Phoenitron	The PRC, partially-foreign-owned enterprises	2018: RMB15,000,000 (2017: RMB80,000,000) *(note 23 (c))*	75%	Provision of LNG services and sales of petro-chemical products
Topwise Technology (SZ) Limited	The PRC, wholly-foreign-owned enterprises	HK$10,000,000	100%	Smart cards manufacturing and sales
Waystech Group Limited	BVI, limited liability company	US$10,000	100%	Investment holding
北京萬利時智能科技有限公司	The PRC, wholly-foreign-owned enterprises	RMB8,335,083	100%	2018: Dormant (2017: sales of smart cards)
上海仁重新能源科技有限公司	The PRC, wholly-foreign-owned enterprises	2018: RMB5,000,000 (2017: RMB50,000,000) *(note)*	75%	Provision of LNG services and sales of petro-chemical products

Note: During the year ended 31 December 2018, the Group completed a share reduction of the subsidiary, equity interest remains at 75%

Other than Waystech Group Limited, which is held directly by the Company, all subsidiaries are held indirectly.

None of the subsidiaries has issued any debt securities at the end of the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

35. NON-CONTROLLING INTERESTS

Refer to note 34, Shanghai Phoenitron, a 75% subsidiary of the Company, has material non-controlling interest (NCI). The NCI of all other subsidiaries that are not 100% owned by the group are considered to be immaterial.

Summarised financial information in relation to Shanghai Phoenitron, before intra-group eliminations, is presented below:

	2018 HK$	2017 HK$
For the year ended 31 December		
Revenue	–	322,856,906
Loss for the year	(528,979)	(603,214)
Translation reserve	(6,240,474)	7,127,837
Total comprehensive (loss)/income	(6,769,453)	6,524,623
Total comprehensive (loss)/income allocated to NCI	(1,692,363)	1,631,156
Dividends paid to NCI	–	–
For the year ended 31 December		
Cash flows used in operating activities	(199,368)	(2,051,267)
Cash flows from investing activities	501,887	861,764
Cash flows used in financing activities	(316,131)	–
Net cash out flows	(13,612)	(1,189,503)
As at 31 December		
Current assets	24,171,766	205,949,834
Non-current assets	5,681,818	60,096,154
Current liabilities	(8,714,407)	(165,020,141)
Net assets	21,139,177	101,025,847
Accumulated non-controlling interests	5,284,794	25,256,462

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

36. 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 related parties.

(a) Transactions with related parties

Related party relationship	Type of transaction	2018 HK$	2017 HK$
Mr. Tsai Chi Yuan ("Mr. Tsai"), the substantial shareholder of the Company	Consultancy fee expense	1,320,000	1,320,000
	Salaries and allowances	246,154	242,151
	Rental expense	271,385	266,972
	Interest expense[1]	–	15,051
	Interest-bearing borrowings[1]	–	1,050,000
	Non-interest bearing borrowings	813,122	795,185
Mr. Chang Wei Wen, the director of the Company	Non-interest bearing borrowings	800,000	200,000

1 The Group 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 Group has fully repaid the loan during the year 2017.

(b) Compensation of key management personnel

Members of key management during the year comprised only the executive directors whose remunerations are set out in note 15.

37. PLEDGE OF ASSETS

The carrying amounts of the following assets have been pledged to secure general banking facilities granted to the Group:

	The Group 2018 HK$	2017 HK$
Pledged bank deposit	–	2,212,324

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

38. COMMITMENTS

As at the end of the reporting period, the Group had other significant commitments as follows:

Capital commitments

	2018 HK$	2017 HK$
Contracted but not provided for:		
– Interest in an associate	–	2,403,846
– Acquisition of plant and equipment	3,298,156	1,041,746
	3,298,156	3,445,592

Operating lease commitments

At the reporting date, the total future minimum lease payments payable by the Group under non-cancellable operating leases are as follows:

	2018 HK$	2017 HK$
Within one year	1,890,669	2,588,804
In the second to fifth year, inclusive	1,133,352	380,700
	3,024,021	2,969,504

The Group leases a number of properties under operating leases. The leases run for an initial period of one to eight years (2017: one to eight years), with an option to renew the lease and renegotiate the terms at the expiry date or at dates as mutually agreed between the Group and respective landlords/lessors. None of the leases include contingent rentals.

39. SIGNIFICANT NON-CASH TRANSACTIONS

During the year ended 31 December 2018, the Group had the following major non-cash transactions:

(i) The Group assigned certain other receivables from a third party of RMB84,654,000 (approximately HK$96,197,727) to a third party supplier. Accordingly, the other receivables of HK$96,197,727 was offset against trade payables.

(ii) As disclosed in note 23(c), a customer of the Group settled the trade receivables of RMB84,744,000 (approximately HK$96,300,000) by assigning amounts receivable from a third party to the Group. Accordingly, trade receivables of HK$96,300,000 was transferred to other receivables.

(iii) As disclosed in note 23(c), the share reduction of a non-wholly owned subsidiary of the Group of RMB65,000,000 (approximately HK$73,863,636) was completed by assigning other receivables to the shareholders of the non-wholly owned subsidiary. Accordingly, other receivables of RMB16,250,000 (approximately HK$18,278,965 at the transaction date or HK$18,465,909 at the closing rate at the reporting date) was offset against non-controlling interests in equity.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate risk and foreign currency risk). The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

In light of the simplicity of the operations, the risk management of the Group is carried out by the board of directors (the "Board") directly. The Board discusses both formally and informally principles for overall risk management, as well as policies covering specific areas, such as foreign currency risk, interest rate risk, credit risk, liquidity risk and use of financial instruments.

Save as disclosed in note 40.2, there has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

40.1 Categories of financial assets and liabilities

The carrying amounts presented in the consolidated statement of financial position relate to the following categories of financial assets and financial liabilities:

	2018 HK$	2017 HK$
Financial assets		
Financial assets at amortised cost		
– Trade and other receivables	101,972,176	–
– Amount due from a joint venture	23,215,878	–
– Cash and cash equivalents	837,849	–
Loans and receivables		
– Trade and other receivables	–	224,888,561
– Pledged deposits	–	2,212,324
– Cash and cash equivalents	–	2,283,931
	126,025,903	229,384,816
Financial liabilities		
Financial liabilities at amortised cost		
– Trade and other payables	43,568,598	137,528,066
– Borrowings	6,457,045	13,923,034
	50,025,643	151,451,100

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (Continued)

40.2 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group.

The Group's maximum exposure to credit risk for the components of the consolidated statement of financial position at 31 December 2018 and 2017 is the carrying amount as disclosed in note 40.1.

Effective on 1 January 2018

(i) Trade receivables

The Company's policy is to deal only with credit worthy counterparties. Credit terms are granted to new customers after a credit worthiness assessment. When considered appropriate, customers may be requested to provide proof as to their financial position. Where available at reasonable cost, external credit ratings and/or reports on customers are obtained and used. Customers who are not considered creditworthy are required to pay in advance or on delivery of goods. Payment record of customers is closely monitored. It is not the Group's policy to request collateral from its customers.

In addition, as set out in note 2.8, the Group assesses ECL under HKFRS 9 on trade receivables based on provision matrix, the expected loss rates are based on the payment profile for sales in the past 24 months as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forwarding looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. At each reporting date, the historical default rates are updated and changes in the forward-looking estimates are analysed. However given the short period exposed to credit risk, the impact of these macroeconomic factors has not been considered significant within the reporting period.

Trade receivables are written off (i.e. derecognised) when there is no reasonable expectation of recovery. Failure to make payments within 90 days from the due date and failure to engage with the Company on alternative payment arrangement amongst other is considered indicators of no reasonable expectation of recovery.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (Continued)

40.2 Credit risk (Continued)

Effective on 1 January 2018 (Continued)

(i) Trade receivables (Continued)

On the above basis, the ECL for trade receivables as at 31 December 2018 and 1 January 2018 was determined as follows:

	Current HK$	1-30 days past due HK$	31-90 days past due HK$	Over 90 days past due HK$	Total HK$
31 December 2018					
ECL rate	0.01%	0.01%	0.05%	0.29%-100%	–
Gross carrying amount – trade receivables	10,038,944	3,507,851	1,235,202	11,654	14,793,651
Lifetime ECL	1,004	351	618	66	2,039
1 January 2018					
ECL rate	0.16%	0.18%	0.91%	8.69%-100%	–
Gross carrying amount (after provision for impairment of receivables) – trade receivables	110,405,434	1,042,637	193,693	346,630	111,988,394
Lifetime ECL	14,100	1,782	1,584	84,087	101,553

(ii) Other financial assets at amortised cost

Other financial assets at amortised cost include other receivables, amount due from a joint venture and bank balances and cash. In order to minimise the credit risk of other receivables and amount due from a joint venture, the management would make periodic collective and individual assessment on the recoverability of other receivables and amount due from a joint venture based on historical settlement records and past experience as well as current external information. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In these regards, the credit risk of other receivables and amount due from a joint venture are considered to be low.

Besides, except for the matters describe in note 23(c) and other receivables of HK$1,402,564 mentioned below, the management is of opinion that there is no significant increase in credit risk on these other receivables and amount due from a joint venture since initial recognition as the risk of default is low after considering the factors as set out in note 2.8 and, thus, ECL recognised is based on 12-month ECL. The ECL rate applied for other receivables and amount due from a joint venture ranging from 0.41% to 4.71%.

The ECL of other receivables of HK$1,402,564 was assessed under life-time ECL as it was under disputes and litigation processes. Based on the legal opinion from the lawyer, the chance to win the court case is highly probable. Thus, the management considered the ECL rate for such amount is 30.8%.

The credit risks on bank balance and cash are considered to be insignificant because the counterparties are banks/financial institutions with high credit ratings assigned by international credit-rating agencies.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (Continued)

40.3 Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of trade payables and its financing obligations, and also in respect of its cash flow management.

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants by reviewing each operating entity's cash flow forecast, to ensure that the Group maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions and related parties to meet its liquidity requirements in the short and longer term. The liquidity policy has been followed by the Group since prior years and is considered to have been effective in managing liquidity risks.

The table below analyses the Group's bank borrowings based on undiscounted cash flows (including interest payments computed using contractual rates or current rates at the reporting date) and the earliest date the Group can be required to pay. Specifically, for loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for other bank borrowings is prepared based on the scheduled repayment dates.

	On demand HK$
At 31 December 2018	
Bank loans subject to a repayment on demand clause	–
At 31 December 2017	
Bank loans subject to a repayment on demand clause	6,941,675

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (Continued)

40.3 Liquidity risk (Continued)

The following table summarises the maturity analysis of the Group's financial liabilities, including bank loans with a repayment on demand clause, based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. As a result, these amounts were greater than the amounts disclosed in the "On demand" time band in the maturity analysis contained above. Taking into account the Group's financial position, the directors do not consider that it is probable that the banks will exercise its discretion to demand immediate repayment. The directors believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Less than 3 months or on demand HK$
At 31 December 2018	
Trade and other payables	**43,568,598**
Other borrowings	**6,457,045**
	50,025,643
At 31 December 2017	
Trade and other payables	137,528,066
Bank loans subject to a repayment on demand clause	6,968,903
Other borrowings	6,981,359
	151,478,328

40.4 Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk mainly arises from borrowings, pledged bank deposits and bank balances. Bank loans issued at variable rates expose the Group to cash flow interest rate risk.

The Group manages interest rate risk by monitoring its interest rate profile as set out in note 28. The Group conducts periodical review to determine preferred interest rates mix appropriate for the business profile. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

The policy to manage interest rate risk has been followed by the Group since prior years is considered to be effective.

The Group has no significant exposure to interest rates risk as the Group currently has no material financial assets and liabilities with floating interest rates.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (Continued)

40.5 Foreign currency risk

Foreign 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 RMB and USD. 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 into 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.

Summary of exposure

Foreign currency denominated financial assets and liabilities, translated into Hong Kong dollars at the closing rates, are as follows:

	2018		2017	
	RMB	USD	RMB	USD
	HK$	HK$	HK$	HK$
Trade and other receivables	55,397,727	10,379,684	134,374	9,849,156
Amount due from a joint venture	23,215,878	–	–	–
Cash and cash equivalents	42	86,740	–	2,655,197
Bank loan	–	–	–	(6,941,675)
Trade and other payables	(14,035)	(1,785,111)	(14,035)	(4,213,179)
Gross exposure arising from recognised financial assets and liabilities	78,599,612	8,681,313	120,339	1,349,499

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (Continued)

40.5 Foreign currency risk (Continued)

Sensitivity analysis

As HK$ is linked to USD, the directors consider that the Group's exposure on foreign currency risk in respect of USD is not significant. The following table illustrates the sensitivity of the Group's profit/loss for the year and equity in regards to a 5% (2017: 5%) appreciation in the Group entities' functional currencies against other foreign currencies. The 5% (2017: 5%) is the rate used when reporting foreign currency risk internally to key management personnel and represents management's best assessment of the possible change in foreign exchange rates.

The sensitivity analysis of the Group's exposure to foreign currency risk at the end of the reporting period has been determined based on the assumed percentage changes in foreign currency exchange rates taking place at the beginning of the financial year and held constant throughout the year.

	2018 **(Decrease)/ Increase in profit for the year and decrease/ (increase) accumulated losses** **RMB** **HK$**	2017 Increase/(Decrease) in loss for the year and accumulated losses RMB HK$
Changes in exchange rate:		
HK$ appreciate by 5% (2017: 5%) against foreign currencies	**(3,281,534)**	6,000
HK$ depreciate by 5% (2017: 5%) against foreign currencies	**3,281,534**	(6,000)

The sensitivity analysis for the year ended 31 December 2017 has been prepared on the same basis.

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions.

40.6 Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2018 and 2017.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

41. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The changes in the Group's liabilities arising from financing activities can be classified as follows:

	Bank loans HK$	Other borrowings – shareholders loans HK$	Other borrowings – other loans HK$	Total HK$
1 January 2018	6,941,675	1,719,231	5,262,128	13,923,034
Cash-flows:				
– Proceeds	13,457,100	1,613,122	6,396,500	21,466,722
– Repayment	(20,398,775)	(3,252,353)	(5,267,915)	(28,919,043)
Non-cash:				
Exchange adjustments	–	–	(13,668)	(13,668)
31 December 2018	–	80,000	6,377,045	6,457,045
1 January 2017	4,962,325	6,490,031	1,000,000	12,452,356
Cash-flows:				
– Proceeds	31,504,525	3,865,184	6,146,785	41,516,494
– Repayment	(29,525,175)	(2,795,984)	(1,495,587)	(33,816,746)
Non-cash:				
Exchange adjustments	–	–	110,930	110,930
Transfer	–	500,000	(500,000)	–
Others* *(note 30(b))*	–	(6,340,000)	–	(6,340,000)
31 December 2017	6,941,675	1,719,231	5,262,128	13,923,034

* Other changes included shareholder's share subscription (note 30(b)).

42. CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.

The Group monitors capital on the basis of gearing ratio. The ratio defined and calculated by the Group as total borrowings expressed as a percentage of total assets, was 4.6% as at 31 December 2018 as compared to 5.6% as at 31 December 2017.

Financial Summary

For the year ended 31 December 2018

The following is a summary of the consolidated results and consolidated assets and liabilities of the Group for each of the five years ended 31 December 2018:

CONSOLIDATED RESULTS

	2014 HK$	2015 HK$	2016 HK$	2017 HK$	**2018** **HK$**
Revenue	461,934,044	2,333,952,429	2,399,113,013	380,960,322	**52,333,412**
(Loss)/Profit from operations	(126,655,032)	12,092,131	(232,316,713)	(19,167,088)	**2,744,657**
Finance costs	(5,924,609)	(1,611,551)	(647,613)	(786,638)	**(1,092,964)**
Share of loss of an associate	(468,476)	–	–	–	**–**
(Loss)/Profit before income tax	(133,048,117)	10,480,580	(232,964,326)	(19,953,726)	**1,651,693**
Income tax (expense)/credit	(593,946)	(3,927,660)	(880,361)	11,163	**(233,560)**
(Loss)/Profit for the year	(133,642,063)	6,552,920	(233,844,687)	(19,942,563)	**1,418,133**

CONSOLIDATED ASSETS AND LIABILITIES

	2014 HK$	2015 HK$	2016 HK$	2017 HK$	**2018** **HK$**
Non-current assets	54,406,777	36,850,227	10,949,415	10,224,732	**8,578,438**
Current assets	310,064,053	367,581,111	129,238,442	237,062,415	**132,833,817**
Current liabilities	148,367,135	83,278,810	49,574,149	153,870,064	**52,301,325**
Non-current liabilities	4,707	4,707	4,707	4,707	**4,707**