



PHOENITRON

PHOENITRON HOLDINGS LIMITED

品創控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8066)

**INTERIM REPORT
FOR THE SIX MONTHS ENDED 30 JUNE 2019**

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”).

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors (the “Director(s)”) of Phoenix Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this 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.

SUMMARY

- The Group recorded an unaudited revenue of approximately HK\$26,316,000 for the six months ended 30 June 2019, representing an increase of 7.4% as compared with that of the corresponding period in 2018.
- The unaudited loss attributable to the owners of the Company for the six months ended 30 June 2019 was approximately HK\$861,000.
- The Board does not recommend any payment of an interim dividend for the six months ended 30 June 2019.

UNAUDITED INTERIM RESULTS

The board of Directors (the “Board”) announces the unaudited consolidated results of the Company and its subsidiaries (together, the “Group”) for the three months and the six months ended 30 June 2019 together with the comparative figures for the corresponding periods in 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	<i>Notes</i>	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2019 <i>HK\$</i>	2018 <i>HK\$</i>	2019 <i>HK\$</i>	2018 <i>HK\$</i>
Revenue	3	16,003,953	13,387,425	26,315,898	24,510,696
Cost of sales		<u>(11,653,211)</u>	<u>(11,261,972)</u>	<u>(18,875,187)</u>	<u>(20,626,334)</u>
Gross profit		4,350,742	2,125,453	7,440,711	3,884,362
Other income	4	5,749	142,835	18,573	181,989
Other gains/(losses), net	5	3,667,209	(647,081)	5,693,278	(736,706)
Selling and distribution costs		(874,051)	(1,002,875)	(1,586,948)	(1,866,559)
Administrative expenses		(5,932,008)	(6,674,164)	(11,756,222)	(15,719,899)
Finance costs	6	(126,085)	(301,742)	(344,422)	(547,526)
Profit/(Loss) before income tax	7	1,091,556	(6,357,574)	(535,030)	(14,804,339)
Income tax expense	8	(132,365)	(109,953)	(404,365)	(109,953)
Profit/(Loss) for the period		<u>959,191</u>	<u>(6,467,527)</u>	<u>(939,395)</u>	<u>(14,914,292)</u>
Other comprehensive loss					
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Exchange (loss)/gain on translation of financial statements of foreign operations		(150,782)	(4,055,754)	154,583	(368,865)
Release of translation reserve on disposal of subsidiaries		(3,134,077)	–	(3,134,077)	–
Other comprehensive loss for the period		<u>(3,284,859)</u>	<u>(4,055,754)</u>	<u>(2,979,494)</u>	<u>(368,865)</u>
Total comprehensive loss for the period		<u>(2,325,668)</u>	<u>(10,523,281)</u>	<u>(3,918,889)</u>	<u>(15,283,157)</u>

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2019	2018	2019	2018
<i>Notes</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Profit/(Loss) for the period attributable to:				
Owners of the Company	989,032	(6,437,025)	(861,300)	(14,823,947)
Non-controlling interests	(29,841)	(30,502)	(78,095)	(90,345)
	959,191	(6,467,527)	(939,395)	(14,914,292)
Total comprehensive loss for the period attributable to:				
Owners of the Company	(2,139,991)	(9,117,786)	(3,842,161)	(14,834,164)
Non-controlling interests	(185,677)	(1,405,495)	(76,728)	(448,993)
	(2,325,668)	(10,523,281)	(3,918,889)	(15,283,157)
	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Earnings/(Loss) per share	<i>10</i>			
– Basic	0.188	(1.273)	(0.164)	(3.097)
– Diluted	0.188	(1.252)	(0.163)	(3.088)

The Group has initially applied HKFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying HKFRS 16 is recognised in accumulated losses at the date of initial application. See note 1.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Unaudited 30 June 2019 <i>HK\$</i>	Audited 31 December 2018 <i>HK\$</i>
	<i>Notes</i>		
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	<i>11</i>	4,592,715	6,980,393
Right-of-use assets		10,210,371	–
Intangible assets		420,000	420,000
Prepayments for acquisition of property, plant and equipment		<u>1,178,045</u>	<u>1,178,045</u>
		<u>16,401,131</u>	<u>8,578,438</u>
Current assets			
Inventories	<i>12</i>	1,399,015	1,331,159
Trade and other receivables	<i>13</i>	108,807,148	106,774,710
Amounts due from a joint venture		–	23,215,878
Tax recoverable		269,856	674,221
Cash and cash equivalents		<u>9,944,422</u>	<u>837,849</u>
		<u>120,420,441</u>	<u>132,833,817</u>
Current liabilities			
Trade and other payables	<i>14</i>	40,549,526	45,844,280
Lease liabilities		2,848,821	–
Borrowings		<u>842,045</u>	<u>6,457,045</u>
		<u>44,240,392</u>	<u>52,301,325</u>
Net current assets		<u>76,180,049</u>	<u>80,532,492</u>
Total assets less current liabilities		<u>92,581,180</u>	<u>89,110,930</u>
Non-current liabilities			
Lease liabilities		8,573,285	–
Deferred tax liabilities		<u>4,707</u>	<u>4,707</u>
		<u>8,577,992</u>	<u>4,707</u>
Net assets		<u><u>84,003,188</u></u>	<u><u>89,106,223</u></u>

		Unaudited	Audited
		30 June	31 December
		2019	2018
	<i>Notes</i>	HK\$	HK\$
EQUITY			
Share capital	15	105,192,500	105,258,500
Reserves		(26,740,254)	(21,779,947)
		<hr/>	<hr/>
Equity attributable to the owners of the Company		78,452,246	83,478,553
Non-controlling interests		5,550,942	5,627,670
		<hr/>	<hr/>
Total equity		84,003,188	89,106,223
		<hr/> <hr/>	<hr/> <hr/>

The Group has initially applied HKFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying HKFRS 16 is recognised in accumulated losses at the date of initial application. See note 1.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited									
	Share capital	Share premium*	Contributed surplus*	Share option reserve*	Other reserves*	Translation reserve*	Accumulated losses*	Total	Non- controlling interests	Total equity
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Balance at 1 January 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 [†]	-	-	-	-	-	-	(665,315)	(665,315)	-	(665,315)
Adjusted balance at 1 January 2018	<u>90,258,500</u>	<u>363,342,716</u>	<u>13,985,669</u>	<u>1,360,008</u>	<u>7</u>	<u>8,125,040</u>	<u>(409,995,030)</u>	<u>67,076,910</u>	<u>25,670,151</u>	<u>92,747,061</u>
Issue of shares upon share subscription	15,000,000	(25,000)	-	-	-	-	-	14,975,000	-	14,975,000
Share-based payments	-	-	-	3,339,000	-	-	-	3,339,000	-	3,339,000
Transactions with owners	<u>15,000,000</u>	<u>(25,000)</u>	<u>-</u>	<u>3,339,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,314,000</u>	<u>-</u>	<u>18,314,000</u>
Loss for the period	-	-	-	-	-	-	(14,823,947)	(14,823,947)	(90,345)	(14,914,292)
Other comprehensive loss - Translation of financial statements of foreign operations	-	-	-	-	-	(10,217)	-	(10,217)	(358,648)	(368,865)
Total comprehensive loss for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,217)</u>	<u>(14,823,947)</u>	<u>(14,834,164)</u>	<u>(448,993)</u>	<u>(15,283,157)</u>
Balance at 30 June 2018	<u><u>105,258,500</u></u>	<u><u>363,317,716</u></u>	<u><u>13,985,669</u></u>	<u><u>4,699,008</u></u>	<u><u>7</u></u>	<u><u>8,114,823</u></u>	<u><u>(424,818,977)</u></u>	<u><u>70,556,746</u></u>	<u><u>25,221,158</u></u>	<u><u>95,777,904</u></u>

	Unaudited									
	Share capital	Share premium*	Contributed surplus*	Share option reserve*	Other reserves*	Translation reserve*	Accumulated losses*	Total	Non-controlling interests	Total equity
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Balance at 1 January 2019	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
Adjustment from adoption of HKFRS 16 (note 1)	-	-	-	-	-	-	(1,124,355)	(1,124,355)	-	(1,124,355)
Adjusted balance at 1 January 2019	105,258,500	363,317,716	13,985,669	3,339,000	7	4,597,923	(408,144,617)	82,354,198	5,627,670	87,981,868
Repurchase of shares	(66,000)	6,209	-	-	-	-	-	(59,791)	-	(59,791)
Transactions with owners	(66,000)	6,209	-	-	-	-	-	(59,791)	-	(59,791)
Loss for the period	-	-	-	-	-	-	(861,300)	(861,300)	(78,095)	(939,395)
Other comprehensive income/(loss)										
- Translation of financial statements of foreign operations	-	-	-	-	-	153,216	-	153,216	1,367	154,583
- Release of translation reserve on disposal of subsidiaries	-	-	-	-	-	(3,134,077)	-	(3,134,077)	-	(3,134,077)
Total comprehensive loss for the period	-	-	-	-	-	(2,980,861)	(861,300)	(3,842,161)	(76,728)	(3,918,889)
Balance at 30 June 2019	105,192,500	363,323,925	13,985,669	3,339,000	7	1,617,062	(409,005,917)	78,452,246	5,550,942	84,003,188

Adjustment is made in the audited financial statements of the Group for the year ended 31 December 2018 due to adoption of HKFRS 9.

* The total of these accounts as at the reporting date represents “Reserves” of HK\$26,740,254 (30 June 2018: adjusted balance from adoption of HKFRS 9 of HK\$34,701,754) in deficit in the consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited	
	Six months ended 30 June	
	2019	2018
	<i>HK\$</i>	<i>HK\$</i>
Net cash used in operating activities	(7,427,510)	(12,033,016)
Net cash from investing activities	23,242,940	2,113,232
Net cash (used in)/from financing activities	<u>(6,708,857)</u>	<u>10,557,888</u>
Net increase in cash and cash equivalents	9,106,573	638,104
Cash and cash equivalents at beginning of the period	837,849	2,283,931
Effect of foreign exchange rate changes	<u>–</u>	<u>(8,435)</u>
Cash and cash equivalents at end of the period	<u>9,944,422</u>	<u>2,913,600</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

This unaudited condensed consolidated financial information for the six months ended 30 June 2019 has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) which collectively includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“HKAS”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The unaudited condensed consolidated financial information also include the applicable disclosure requirements of the GEM Listing Rules. The unaudited condensed consolidated financial information should be read in conjunction with the audited annual financial statements of the Group for the year ended 31 December 2018.

Except as for the adoption of new and revised HKFRSs issued by the HKICPA, which are effective for the Group’s financial year beginning 1 January 2019, the accounting policies applied are consistent with those of the audited annual financial statements of the Group for the year ended 31 December 2018, as described in those audited annual financial statements. Other than as explained below and described in those audited annual financial statements regarding the impact of HKFRS 16 “Leases” (“HKFRS 16”), the Directors anticipate that the application of these new and revised HKFRSs will not have material impact on the unaudited condensed consolidated financial information of the Group.

Upon the initial application of HKFRS 16, the Group has measured 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 have been adjusted, after taking account the effects of discounting, as at 1 January 2019.

The Group has initially applied HKFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying HKFRS 16 is recognised in accumulated losses at the date of initial application.

The following table summarises the impact of transition to HKFRS 16 on Group’s consolidated statement of financial position at 1 January 2019:

	<i>HK\$</i>
Increase in right-of-use assets	8,281,925
Increase in lease liabilities	9,406,280
Increase in accumulated losses	<u>1,124,355</u>

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

The Group has not early applied the new and revised HKFRSs that have been issued by the HKICPA but are not yet effective.

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

In preparing these unaudited condensed consolidated financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the audited annual consolidated financial statements of the Group for the year ended 31 December 2018.

2. SEGMENT INFORMATION AND REVENUE

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

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

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

Revenue and expenses are allocated to the reportable segments with reference to sales generated and the expenses incurred by those segments. The measurement of segment profit or loss before income tax is the same as those used in preparing these financial statements under HKFRSs except that finance costs, gain on disposal of subsidiaries, 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 assets, tax recoverable, assets which are not attributable to the business activities of the operating segments and other assets which are managed on a group basis such as cash and cash equivalents.

Segment liabilities include all liabilities except for deferred tax liabilities, liabilities which are not attributable to the business activities of the operating segments and other liabilities which are managed on a group basis such as borrowings.

Six months ended 30 June 2019

	Unaudited						Consolidated HK\$
	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\$	
Reportable segment revenue	<u>26,270,318</u>	<u>45,580</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,315,898</u>
Reportable segment loss	<u>(449,685)</u>	<u>(3,263)</u>	<u>(453,063)</u>	<u>(1,699,955)</u>	<u>(313,149)</u>	<u>-</u>	<u>(2,919,115)</u>
Finance costs							(344,422)
Gain on disposal of subsidiaries							5,006,004
Exchange gains, net							687,274
Corporate expenses, net							<u>(2,964,771)</u>
Loss before income tax							<u>(535,030)</u>

Six months ended 30 June 2018

	Unaudited						Consolidated HK\$
	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\$	
Reportable segment revenue	<u>24,494,676</u>	<u>16,020</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,510,696</u>
Reportable segment loss	<u>(5,151,600)</u>	<u>(6,193)</u>	<u>(168,379)</u>	<u>(1,736,349)</u>	<u>(366,791)</u>	<u>-</u>	<u>(7,429,312)</u>
Finance costs							(547,526)
Exchange losses, net							(736,706)
Corporate expenses, net							<u>(6,090,795)</u>
Loss before income tax							<u>(14,804,339)</u>

30 June 2019

	Unaudited						
	Sales of smart cards	Sales of smart card application systems	Financial and management consultancy services	Trading of scrap metals	Sales of petro-chemical products	Unallocated	Consolidated
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Reportable segment assets	<u>41,822,844</u>	<u>11,920</u>	<u>-</u>	<u>1,583,533</u>	<u>77,518,688</u>	<u>5,250,309</u>	126,187,294
Intangible assets							420,000
Tax recoverable							269,856
Cash and cash equivalents							<u>9,944,422</u>
Total consolidated assets							<u>136,821,572</u>
Reportable segment liabilities	<u>41,454,502</u>	<u>10,500</u>	<u>-</u>	<u>123,386</u>	<u>2,405,406</u>	<u>7,977,838</u>	51,971,632
Borrowings							842,045
Deferred tax liabilities							<u>4,707</u>
Total consolidated liabilities							<u>52,818,384</u>

31 December 2018

	Audited						
	Sales of smart cards	Sales of smart card application systems	Financial and management consultancy services	Trading of scrap metals	Sales of petro-chemical products	Unallocated	Consolidated
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Reportable segment assets	<u>35,374,085</u>	<u>3,840</u>	<u>-</u>	<u>2,326,502</u>	<u>77,542,362</u>	<u>24,233,396</u>	139,480,185
Intangible assets							420,000
Tax recoverable							674,221
Cash and cash equivalents							<u>837,849</u>
Total consolidated assets							<u>141,412,255</u>
Reportable segment liabilities	<u>38,881,018</u>	<u>16,500</u>	<u>-</u>	<u>151,384</u>	<u>2,128,604</u>	<u>4,666,774</u>	45,844,280
Borrowings							6,457,045
Deferred tax liabilities							<u>4,707</u>
Total consolidated liabilities							<u>52,306,032</u>

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

3. REVENUE

Revenue from transfer of goods at a point in time from external customers in the following product lines:

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
	HK\$	HK\$	HK\$	HK\$
Sales of smart cards	15,999,473	13,379,325	26,270,318	24,494,676
Sales of smart card application systems	4,480	8,100	45,580	16,020
	<u>16,003,953</u>	<u>13,387,425</u>	<u>26,315,898</u>	<u>24,510,696</u>

4. OTHER INCOME

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
	HK\$	HK\$	HK\$	HK\$
Bank interest income	702	1,399	1,098	1,476
Sundry income	5,047	141,436	17,475	180,513
	<u>5,749</u>	<u>142,835</u>	<u>18,573</u>	<u>181,989</u>

5. OTHER GAINS/(LOSSES), NET

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
	HK\$	HK\$	HK\$	HK\$
Gain on disposal of subsidiaries	5,006,004	–	5,006,004	–
Exchange (losses)/gains, net	(1,338,795)	(647,081)	687,274	(736,706)
	<u>3,667,209</u>	<u>(647,081)</u>	<u>5,693,278</u>	<u>(736,706)</u>

6. FINANCE COSTS

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
	HK\$	HK\$	HK\$	HK\$
Finance charges on lease liabilities	123,819	–	248,140	–
Interest on bank loans wholly repayable within five years	–	51,673	–	103,588
Interest charges on other borrowings	2,266	250,069	96,282	443,938
	<u>126,085</u>	<u>301,742</u>	<u>344,422</u>	<u>547,526</u>

7. PROFIT/(LOSS) BEFORE INCOME TAX

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

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
	HK\$	HK\$	HK\$	HK\$
Cost of inventories recognised as expenses	11,653,211	11,261,972	18,875,187	20,626,334
Short term leases and leases with lease term shorter than 12 months at initial application of HKFRS 16	484,178	–	1,113,613	–
Depreciation				
– Owned assets	638,039	834,709	1,294,240	1,662,794
– Right-of-use assets	619,391	–	1,143,942	–
Operating lease charges on land and buildings	–	1,216,936	–	2,432,406
	<u>11,653,211</u>	<u>11,261,972</u>	<u>18,875,187</u>	<u>20,626,334</u>

8. INCOME TAX EXPENSE

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
	HK\$	HK\$	HK\$	HK\$
Current tax				
– Hong Kong Profits Tax				
Current year	132,365	116,702	404,365	116,702
– PRC Enterprise Income Tax				
Current year	–	–	–	–
Over-provision in prior year	–	(6,749)	–	(6,749)
Total income tax expense	<u>132,365</u>	<u>109,953</u>	<u>404,365</u>	<u>109,953</u>

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%.

Hong Kong Profits Tax has been provided in accordance with the two-tiered profits tax rates regime on the estimated assessable profits for the six months ended 30 June 2019. For the six months ended 30 June 2018, Hong Kong Profits Tax was calculated at a flat rate of 16.5% of the estimated assessable profit for the period.

(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 period and prior period based on the existing legislation, interpretations and practices in respect thereof. The applicable income tax rate is 25% (2018: 25%) for the six months ended 30 June 2019.

9. DIVIDEND

The board does not recommend any payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: nil).

10. 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 period, calculated as follows:

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2019 HK\$	2018 HK\$	2019 HK\$	2018 HK\$
Profit/(Loss) attributable to owners of the Company (HK\$)	989,032	(6,437,025)	(861,300)	(14,823,947)
Weighted average number of ordinary shares in issue	<u>526,134,478</u>	<u>505,688,104</u>	<u>526,213,052</u>	<u>478,640,566</u>
Basic earnings/(loss) per share (expressed in HK cents per share)	<u>0.188</u>	<u>(1.273)</u>	<u>(0.164)</u>	<u>(3.097)</u>

(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 issue during the period, calculated as follows:

Weighted average number of ordinary shares (diluted)

	Three months ended 30 June		Six months ended 30 June	
	2019 HK\$	2018 HK\$	2019 HK\$	2018 HK\$
Weighted average number of ordinary shares used in calculation of basic earnings/(loss) per share	<u>526,134,478</u>	<u>505,688,104</u>	<u>526,213,052</u>	<u>478,640,566</u>
Effect of deemed issue of shares under the Company's share option scheme	<u>–</u>	<u>8,427,220</u>	<u>917,787</u>	<u>1,480,314</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings/(loss) per share	<u>526,134,478</u>	<u>514,115,324</u>	<u>527,130,839</u>	<u>480,120,880</u>

Diluted earnings/(loss) per share

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
	HK\$	HK\$	HK\$	HK\$
Profit/(Loss) attributable to owners of the Company (HK\$)	989,032	(6,437,025)	(861,300)	(14,823,947)
Weighted average number of ordinary shares (diluted)	526,134,478	514,115,324	527,130,839	480,120,880
Diluted earnings/(loss) per share (expressed in HK cents per share)	<u>0.188</u>	<u>(1.252)</u>	<u>(0.163)</u>	<u>(3.088)</u>

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2019, the Group acquire property, plant and equipment of HK\$496,597 (six months ended 30 June 2018: nil).

12. INVENTORIES

	Unaudited	Audited
	30 June 2019	31 December 2018
	HK\$	HK\$
Raw materials	1,010,488	573,555
Work-in-progress	65,174	743,259
Finished goods	323,353	14,345
	<u>1,399,015</u>	<u>1,331,159</u>

13. TRADE AND OTHER RECEIVABLES

	Unaudited	Audited
	30 June 2019	31 December 2018
	HK\$	HK\$
Trade receivables, net (<i>note</i>)	15,681,302	14,791,612
Other receivables, deposits and prepayments, net	93,125,846	91,983,098
	<u>108,807,148</u>	<u>106,774,710</u>

Note:

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

	Unaudited	Audited
	30 June 2019	31 December 2018
	HK\$	HK\$
0 – 30 days	6,611,562	3,867,673
31 – 90 days	7,562,406	7,908,436
Over 90 days	1,509,373	3,017,542
Less: ECL allowance	(2,039)	(2,039)
	<u>15,681,302</u>	<u>14,791,612</u>

The ageing analysis of trade receivables net of ECL allowance, based on due date, is as follows:

	Unaudited 30 June 2019 <i>HK\$</i>	Audited 31 December 2018 <i>HK\$</i>
Neither past due nor impaired	13,088,147	10,037,940
1 – 30 days past due	1,068,584	3,507,500
31 – 90 days past due	15,925	1,234,584
Over 90 days past due	1,508,646	11,588
	<u>15,681,302</u>	<u>14,791,612</u>

14. TRADE AND OTHER PAYABLES

	Unaudited 30 June 2019 <i>HK\$</i>	Audited 31 December 2018 <i>HK\$</i>
Trade payables (<i>note</i>)	23,852,280	29,739,997
Other payables and accrual	16,697,246	16,104,283
	<u>40,549,526</u>	<u>45,844,280</u>

Note:

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

	Unaudited 30 June 2019 <i>HK\$</i>	Audited 31 December 2018 <i>HK\$</i>
0 – 30 days	2,166,182	1,470,892
31 – 60 days	2,328,834	957,825
61 – 90 days	2,299,975	3,011,715
Over 90 days	17,057,289	24,299,565
	<u>23,852,280</u>	<u>29,739,997</u>

15. SHARE CAPITAL

	Unaudited 30 June 2019 <i>HK\$</i>	Audited 31 December 2018 <i>HK\$</i>
Authorized:		
1,500,000,000 ordinary shares of HK\$0.20 each	<u>300,000,000</u>	<u>300,000,000</u>
Issued and fully paid:		
525,962,500 (31 December 2018: 526,292,500) ordinary shares of HK\$0.20 each	<u><u>105,192,500</u></u>	<u><u>105,258,500</u></u>

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

	Par value per share <i>HK\$</i>	Number of shares	Nominal value <i>HK\$</i>
At 1 January 2019	0.20	526,292,500	105,258,500
Repurchase of shares (<i>note</i>)	<u>0.20</u>	<u>(330,000)</u>	<u>(66,000)</u>
At 30 June 2019	<u><u>0.20</u></u>	<u><u>525,962,500</u></u>	<u><u>105,192,500</u></u>

Note

For the six months ended 30 June 2019, the Company purchased back 945,000 shares over the Stock Exchange, of which 330,000 shares has been cancelled as of 30 June 2019.

16. CAPITAL COMMITMENT

	Unaudited 30 June 2019 <i>HK\$</i>	Audited 31 December 2018 <i>HK\$</i>
Contracted but not provided for:		
– Acquisition of property, plant and equipment	<u>3,298,156</u>	<u>3,298,156</u>
	<u><u>3,298,156</u></u>	<u><u>3,298,156</u></u>

17. EVENT AFTER REPORTING PERIOD

On 5 July 2019, a repayment agreement regarding part of the amount due from a petroleum company presented in other receivable of RMB48,750,000 (equivalent to HK\$55,397,727) was entered into with the petroleum company to govern the settlement of the said RMB48,750,000 (equivalent to HK\$55,397,727). For more details, please refer to the voluntary announcement of the Company dated 12 July 2019.

As at the date of this report, a total sum of about RMB14,273,230 (equivalent to about HK\$16,219,580) has been settled by the petroleum company.

MANAGEMENT DISCUSSION AND ANALYSIS

Operation and Financial Review

Revenue

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

During the Reporting Period, the Group's revenue generated from the SIM card manufacturing business amounted to approximately HK\$26.3 million, up by approximately HK\$1.8 million or 7.3% as compared to the corresponding period in 2018 of approximately HK\$24.5 million. The management expects that the orders for the rest of the year will continue to increase.

Cost of Sales ("COS") and Gross Profit

During the Reporting Period, cost of sales incurred for the SIM card manufacturing business amounted to approximately HK\$18.8 million, a decline of approximately HK\$1.8 million or 8.7% as compared to the corresponding period in 2018 of approximately HK\$20.6 million. The reason for the substantial decrease in costs is a better sales-mix of an increased provision of higher-value-added service.

Due to the above-mentioned, gross profit of the Group rose by approximately HK\$3.5 million or 89.7%, from the corresponding period in 2018 of approximately HK\$3.9 million, to approximately HK\$7.4 million.

Other Income

Other income of approximately HK\$0.02 million (six months ended 30 June 2018: approximately HK\$0.18 million) was mainly comprised of sundry income.

Other gains/(losses), net

During the Reporting Period, other gains amounted to approximately HK\$5.7 million (six months ended 30 June 2018: losses of approximately HK\$0.7 million), which was attributable to the gain on disposal of subsidiaries (mainly represented by Beijing Venus Smart, one of the plants in Beijing that was engaged in the manufacturing of smartcards and serving the PRC customers and had ceased operations in 2016/2017) of approximately HK\$5.0 million and exchange gains arising from foreign currency based transactions of approximately HK\$0.7 million.

Selling and Distribution Costs

During the Reporting Period, selling and distribution costs amounted to approximately HK\$1.59 million, representing a decline of approximately HK\$0.28 million, or 15.0%, as compared to the corresponding period in 2018 of approximately HK\$1.87 million. The decrease was mainly due to a decrease in local transportation costs caused by the decline in a certain SIM card customer's revenue year-on-year, whose orders required local delivery.

Administrative Expenses

Administrative expenses also recorded a drop of approximately HK\$3.96 million, or 25.2% during the Reporting Period, from approximately HK\$15.72 million for the corresponding period in 2018, to approximately HK\$11.76 million. The decrease was primarily attributable to the share-based payments expense with a fair value of approximately HK\$3.34 million which was recognised in 2018 for share options granted to the Directors and certain employees of the Group and to the decrease in staff costs.

Finance Costs

During the Reporting Period, the Group's finance costs amounted to approximately HK\$0.34 million (six months ended 30 June 2018: approximately HK\$0.55 million). The decrease was primarily due to the drop in interest charged on borrowings of approximately HK\$0.45 million (lower average borrowings year-on-year) but was partly offset by incurrence of finance charge on lease liabilities of approximately HK\$0.24 million (adoption of new HKFRS 16).

Income Tax Expense

During the Reporting Period, an income tax expense of approximately HK\$0.40 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 (six months ended 30 June 2018: HK\$0.11 million).

Non-controlling Interest

During the Reporting Period, losses attributable to the non-controlling interests amounted to approximately HK\$0.08 million (six months ended 30 June 2018: HK\$0.09 million).

As a result of the foregoing, loss attributable to owners of the Company during the Reporting Period has narrowed to approximately HK\$0.86 million (six months ended 30 June 2018: approximately HK\$14.82 million).

LIQUIDITY AND FINANCIAL RESOURCES

During the period under review, the Group financed its business operations and investments with cash revenue generated from operating activities and other borrowings. As at 30 June 2019 the Group had cash and bank balances of approximately HK\$9.9 million (31 December 2018: approximately HK\$0.8 million) and other borrowings of approximately HK\$0.8 million (31 December 2018: approximately HK\$6.5 million).

As at 30 June 2019, the Group had current assets of approximately HK\$120.4 million (31 December 2018: approximately HK\$132.8 million) and current liabilities of approximately HK\$44.2 million (31 December 2018: approximately HK\$52.3 million). The current ratio, expressed as current assets over current liabilities, was maintained at a level of 2.7 (31 December 2018: 2.5).

EMPLOYEE INFORMATION

As at 30 June 2019, the Group employed a total of 162 employees (31 December 2018: 141 employees), of which 13 were located in Hong Kong and 6 were located in Taiwan and the rest were located in the PRC. Employee cost, including Directors' remuneration, was approximately HK\$10.6 million (six months ended 30 June 2018: approximately HK\$14.6 million) for the period under review. The Group remunerates its employees based on their performance, experience and the prevailing industry practice. In addition to basic salaries and participation in mandatory provident fund scheme, staff benefits include medical scheme and share options.

SIGNIFICANT INVESTMENTS

Save as disclosed under section headed "Operation and Financial Review" and "Notes to the Unaudited Interim Financial Statements" above, there were no other significant investments for the period ended 30 June 2019.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group made no material acquisitions or disposals of subsidiaries and affiliated companies during the six months ended 30 June 2019.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed under section headed "Operation and Financial Review" and "Notes to the Unaudited Interim Financial Statements" above, there were no future plans for material investments or capital assets as at 30 June 2019.

CHARGE ON GROUP ASSETS

At 30 June 2019, there is no charge on assets of Group (31 December 2018: nil).

GEARING RATIO

The gearing ratio of the Group, expressed as a percentage of total borrowings including lease liabilities to total assets of the Group, was 9.0% as at 30 June 2019 (31 December 2018: 4.6%).

CONTINGENT LIABILITIES

As at 30 June 2019, the Group did not have any significant contingent liabilities.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

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

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

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

As at 30 June 2019, the interests or short position of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein, or which were required, pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Name of director	Nature of interest	Long/short position	Number of shares of the Company	Number of underlying shares of the Company	Approximate percentage of interest in the Company's issued share capital
Executive Director					
Lily Wu (<i>Note 1</i>)	Beneficial owner	Long	100,000	4,500,000	0.87
Chang Wei Wen (<i>Note 1</i>)	Beneficial owner	Long	525,000	4,500,000	0.96
Yang Meng Hsiu (<i>Note 1</i>)	Beneficial owner	Long	4,300,000	4,500,000	1.67
Independent Non-executive Director					
Chan Siu Wing, Raymond (<i>Note 2</i>)	Beneficial owner	Long	–	450,000	0.09
Leung Ka Kui, Johnny (<i>Note 2</i>)	Beneficial owner	Long	–	450,000	0.09
Wong Ka Wai, Jeanne (<i>Note 2</i>)	Beneficial owner	Long	–	450,000	0.09

Notes:

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 30 June 2019, none of the Directors and chief executives or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein, or which were required, pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2019, the following persons/companies had interest or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying voting rights to vote in all circumstances at general meetings of the Company or any other member of the Group:

Name of shareholders	Type of interests	Long/short position	Number of shares of the Company	Approximate percentage of interests
Golden Dice Co., Ltd. (Note 1)	Beneficial	Long	51,927,512	9.87
Best Heaven Limited (Note 1)	Beneficial	Long	31,586,500	6.01
Mr. Tsai Chi Yuan (Note 1)	Interests in controlled company	Long	83,514,012	15.88

Note:

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

Save as disclosed above, as at 30 June 2019, the Directors are not aware of any other persons or corporation (other than the Directors and chief executive of the Company) having an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital rights to vote in all circumstances at general meetings of the Company or any other member of the Group.

SHARE OPTION

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

Name of participant	At 1 January 2019	Granted during the period	At 30 June 2019	Date of grant	Exercisable period	Exercise price HK\$
Executive Director						
Lily Wu (Note 1)	4,500,000	–	4,500,000	3 January 2018	3 January 2018 to 2 January 2028	0.20
Chang Wei Wen (Note 1)	4,500,000	–	4,500,000	3 January 2018	3 January 2018 to 2 January 2028	0.20
Yang Meng Hsiu (Note 1)	4,500,000	–	4,500,000	3 January 2018	3 January 2018 to 2 January 2028	0.20
Independent Non-executive Director						
Chan Siu Wing, Raymond (Note 1)	450,000	–	450,000	3 January 2018	3 January 2018 to 2 January 2028	0.20
Leung Ka Kui, Johnny (Note 1)	450,000	–	450,000	3 January 2018	3 January 2018 to 2 January 2028	0.20
Wong Ka Wai, Jeanne (Note 1)	450,000	–	450,000	3 January 2018	3 January 2018 to 2 January 2028	0.20

Note:

- As at 30 June 2019, the remaining life was about 8.51 year.

AUDIT COMMITTEE

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

The Group's unaudited results for the three months and the six months ended 30 June 2019 have been reviewed by the audit committee.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The corporate governance principles of the Company emphasise a quality Board, sound internal controls, transparency and accountability to all shareholders. Throughout the six months ended 30 June 2019, the Group complied with the code provisions in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules, except for the code provision A2.1 stipulated in the following paragraphs.

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

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

- The size of the Group is still relatively small and thus not justified in separating the roles of chairman and CEO; and
- The Group has in place an internal control system to perform the check and balance function. Ms. Wu is primarily responsible for leadership of the Group and the Board, setting strategic direction, ensuring the effectiveness of management in execution of the strategy approved by the Board. Execution responsibilities lie with another executive Director and senior management of the Company.

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

DIRECTORS' SECURITIES TRANSACTIONS

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

Having made specific enquiry by the Company, all Directors have confirmed that they have complied with the required standard set out in such code of conduct throughout the six months ended 30 June 2019.

COMPETING INTERESTS

As at 30 June 2019, none of the Directors or the management shareholders or any of their respective associates (as defined under the GEM Listing Rules) of the Company had any interest in a business that competed or might compete with the business of the Group directly or indirectly.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2019, the Company repurchased a total of 945,000 of its own shares on the Stock Exchange at an aggregate consideration (before expenses) of HK\$164,050 (of which 330,000 shares has been cancelled as of 30 June 2019).

Particulars of the repurchases are as follows:

Date of repurchase	No. of Shares	Price per share		Aggregate Price HK\$
		Highest HK\$	Lowest HK\$	
May	330,000	0.190	0.170	59,090
June	<u>615,000</u>	0.186	0.150	<u>104,960</u>
Total	<u><u>945,000</u></u>			<u><u>164,050</u></u>

Save as aforesaid, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities during the six months ended 30 June 2019.

For and on behalf of the Board

Lily Wu
Chairman

Hong Kong, 12 August 2019