



PHOENITRON

PHOENITRON HOLDINGS LIMITED

品創控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8066)

THIRD QUARTERLY REPORT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2011

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

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This report, for which the directors (the “Directors”) 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 HK\$96,692,000 for the nine months ended 30 September 2011, representing a drop of 12.2% as compared with that of the corresponding period in 2010.
- The unaudited loss attributable to the owners of the Company for the nine months ended 30 September 2011 was HK\$1,622,000.
- The Board does not recommend any payment of an interim dividend for the nine months ended 30 September 2011.

UNAUDITED THIRD QUARTERLY RESULTS

The board (the “Board”) of Directors announces the unaudited consolidated results of the Company and its subsidiaries (together, the “Group”) for the three months and the nine months ended 30 September 2011 together with the comparative figures for the corresponding periods in 2010 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Three months ended 30 September 2011		Nine months ended 30 September 2011	
	Notes	HK\$	2010 HK\$	HK\$	2010 HK\$
Revenue	2	30,831,794	38,757,906	96,691,658	110,117,389
Cost of sales		<u>(24,218,452)</u>	<u>(28,211,456)</u>	<u>(74,303,403)</u>	<u>(82,239,357)</u>
Gross profit		6,613,342	10,546,450	22,388,255	27,878,032
Other revenue	3	5,432,300	672,043	13,929,133	805,814
Selling and distribution costs		(1,581,961)	(1,240,720)	(4,236,167)	(4,003,763)
Administrative expenses		(6,481,158)	(5,503,068)	(18,558,612)	(16,241,673)
Finance costs	4	(215,004)	(157,803)	(426,863)	(391,993)
Share of losses of a jointly controlled entity		<u>(4,645,789)</u>	<u>(1,153,225)</u>	<u>(12,172,936)</u>	<u>(2,708,774)</u>
(Loss) Profit before income tax		(878,270)	3,163,677	922,810	5,337,643
Income tax expense	5	<u>(702,805)</u>	<u>(1,028,905)</u>	<u>(2,544,610)</u>	<u>(2,495,081)</u>
(Loss) Profit for the period		<u>(1,581,075)</u>	<u>2,134,772</u>	<u>(1,621,800)</u>	<u>2,842,562</u>
Other comprehensive income					
Exchange gain on translation of financial statements of foreign operations		<u>1,314,616</u>	<u>588,005</u>	<u>2,790,091</u>	<u>1,250,749</u>
Other comprehensive income for the period		<u>1,314,616</u>	<u>588,005</u>	<u>2,790,091</u>	<u>1,250,749</u>
Total comprehensive income for the period		<u>(266,459)</u>	<u>2,722,777</u>	<u>1,168,291</u>	<u>4,093,311</u>
		<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
			(Restated)		(Restated)
(Losses) Earnings per share	7				
– Basic		<u>(0.0521)</u>	<u>0.0854</u>	<u>(0.0547)</u>	<u>0.1152</u>
– Diluted		<u>(0.0520)</u>	<u>0.0802</u>	<u>(0.0546)</u>	<u>0.1081</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HK\$	Contributed surplus HK\$	Share option reserve HK\$	Other reserves HK\$	Exchange difference HK\$	Available-for sale financial assets revaluation reserve HK\$	Warrant reserve HK\$	Accumulated profits HK\$	Total HK\$
At 1 January 2010	48,910,000	77,937,474	2,448,014	7	6,843,345	–	1,445,500	24,806,803	162,391,233
2009 final dividend paid during the period	–	(7,354,500)	–	–	–	–	–	–	(7,354,500)
Issue of new shares upon exercise of warrants	1,450,000	14,862,500	–	–	–	–	–	–	16,312,500
Issue of new shares upon exercise of share options	120,000	996,000	–	–	–	–	–	–	1,116,000
Transactions with owners	50,480,000	86,441,474	2,448,014	7	6,843,435	–	1,445,500	24,806,803	172,465,233
Profit for the period	–	–	–	–	–	–	–	2,842,562	2,842,562
Other comprehensive income – Currency translation	–	–	–	–	1,250,749	–	–	–	1,250,749
Total comprehensive income for the period	–	–	–	–	1,250,749	–	–	2,842,562	4,093,311
At 30 September 2010	50,480,000	86,441,474	2,448,014	7	8,094,184	–	1,445,500	27,649,365	176,558,544
At 1 January 2011	55,192,000	137,272,980	1,360,008	7	8,781,604	2,058,355	–	38,302,445	242,967,399
2010 final dividend paid during the period	–	(12,142,240)	–	–	–	–	–	–	(12,142,240)
Issue of new shares on completion of the Open Offer	5,519,200	93,826,400	–	–	–	–	–	–	99,345,600
Share issue expenses	–	(1,193,534)	–	–	–	–	–	–	(1,193,534)
Transactions with owners	60,711,200	217,763,606	1,360,008	7	8,781,604	2,058,355	–	38,302,445	328,977,225
Loss for the period	–	–	–	–	–	–	–	(1,621,800)	(1,621,800)
Other comprehensive income – Currency translation	–	–	–	–	2,790,091	–	–	–	2,790,091
Total comprehensive income for the period	–	–	–	–	2,790,091	–	–	(1,621,800)	1,168,291
At 30 September 2011	60,711,200	217,763,606	1,360,008	7	11,571,695	2,058,355	–	36,680,645	330,145,516

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The unaudited consolidated results have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the applicable disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules.

The Group’s unaudited results for the three months and the nine months ended 30 September 2011 have been reviewed by the audit committee.

2. REVENUE

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

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2011	2010	2011	2010
	HK\$	HK\$	HK\$	HK\$
Sales of smart cards and plastic cards	30,831,794	38,750,586	96,421,059	110,073,669
Sales of smart card application systems	–	7,320	260,160	42,870
Service and other income	–	–	10,439	850
	<u>30,831,794</u>	<u>38,757,906</u>	<u>96,691,658</u>	<u>110,117,389</u>

3. OTHER REVENUE

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2011	2010	2011	2010
	HK\$	HK\$	HK\$	HK\$
Handling fee income	1,457,720	–	2,885,270	–
Gain on disposal of property, plant and equipment	–	361,636	7,070	361,636
Interest income (<i>note</i>)	3,939,429	145,468	10,965,616	190,643
Sundry income	35,151	164,939	71,177	253,535
	<u>5,432,300</u>	<u>672,043</u>	<u>13,929,133</u>	<u>805,814</u>

Note:

Interest income comprises interest income arising from amount due from a jointly-controlled entity of HK\$5,930,920, interest income arising from amortisation of available-for-sale financial assets of HK\$4,688,985, interest income on loan receivable of HK\$164,383 and bank interest income of HK\$181,328 (*nine months ended 30 September 2010: HK\$190,643*).

4. FINANCE COSTS

	Unaudited Three months ended 30 September 2011 HK\$		Unaudited Nine months ended 30 September 2011 HK\$	
		2010 HK\$		2010 HK\$
Interest on bank loans wholly repayable within five years	183,740	127,769	335,264	279,101
Interest element of finance lease payments	31,264	30,034	91,599	112,892
	<u>215,004</u>	<u>157,803</u>	<u>426,863</u>	<u>391,993</u>

5. INCOME TAX EXPENSE

	Unaudited Three months ended 30 September 2011 HK\$		Unaudited Nine months ended 30 September 2011 HK\$	
		2010 HK\$		2010 HK\$
Current tax				
– Hong Kong Profits Tax				
Current year	794,610	394,000	2,544,610	571,000
– PRC Enterprise Income Tax				
Current year	(91,805)	634,905	–	1,924,081
Total income tax expense	<u>702,805</u>	<u>1,028,905</u>	<u>2,544,610</u>	<u>2,495,081</u>

Hong Kong Profits Tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits for the periods. Taxation for subsidiaries established and operated in the People's Republic of China ("PRC") is calculated on the estimated assessable profit for the periods at the rates of taxation prevailing in the PRC.

Pursuant to the income tax rules and regulations of the PRC, the subsidiaries in the PRC are liable to PRC Enterprise Income Tax ("EIT") at the rates of 25% (2010: 25%).

6. DIVIDEND

The Board does not recommend any payment of an interim dividend for the nine months ended 30 September 2011 (2010: NIL).

The final dividend of HK\$0.004 (2009: HK\$0.015) per share for the year ended 31 December 2010 had been approved and was paid before 17 May 2011.

7. (LOSSES) EARNINGS PER SHARE

(a) Basic (losses) earnings per share

The calculation of basic (losses) earnings per share is based on the losses for the three months and nine months ended 30 September 2011 of HK\$1,581,000 and HK\$1,622,000 (*three months and nine months ended 30 September 2010: profit of HK\$2,135,000 and HK\$2,843,000 respectively*) and the weighted average of 3,035,560,000 and 2,966,822,711 ordinary shares in issue during the periods, as adjusted for the Share Sub-division as defined and disclosed in the section headed “Share Sub-division” below as if it had occurred on 1 January 2011 (*three months and nine months ended 30 September 2010: 2,499,869,565 and 2,467,804,030 ordinary shares respectively, restated for the Share Sub-division*).

(b) Diluted (losses) earnings per share

The calculation of diluted (losses) earnings per share is based on the losses for the three months ended and nine months ended 30 September 2011 of HK\$1,581,000 and HK\$1,622,000 (*three months and nine months ended 30 September 2010: profit of HK\$2,135,000 and HK\$2,843,000 respectively*) and the weighted average of 3,040,313,768 and 2,971,873,624 ordinary shares (*three months and nine months ended 30 September 2010: 2,660,467,936 and 2,628,788,757 ordinary shares, restated for the Share Sub-division*), calculated as follows:

	Three months ended 30 September 2011		Nine months ended 30 September 2011	
		2010 (Restated)		2010 (Restated)
Weighted average number of ordinary shares used in the calculation of basic (losses) earnings per share	3,035,560,000	2,499,869,565	2,966,822,711	2,467,804,029
Effect of deemed issue of shares under the Company’s share option scheme	4,753,768	5,013,941	5,050,913	6,250,797
Effect of deemed issue of shares on exercise of warrants	–	155,584,430	–	154,733,931
Weighted average number of ordinary shares for the purpose of calculating diluted (losses) earnings per share	<u>3,040,313,768</u>	<u>2,660,467,936</u>	<u>2,971,873,624</u>	<u>2,628,788,757</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

Revenue

During the period under review, the Group's revenue was principally derived from its Intercard subsidiary which is engaged in the manufacturing and sales of smart cards and plastic cards, and in the provision of customised smart card application systems.

The Group's Intercard subsidiary faced a difficult and competitive business environment for the first nine months of 2011, characterized by on-going price pressures and rising costs in China. The Group's revenue for the nine months ended 30 September 2011 was HK\$96.7 million, representing a drop of 12.2% as compared to the corresponding period in 2010 of HK\$110.1 million. The decrease was due primarily to price-cuts that have been offered to select customers in exchange for greater sales volume as well as the instability of the global economy which dampened our customers' confidence and hence leading to the dropped in sales orders as placing of orders were postponed.

Sales orders are back to normal in the fourth quarter.

Cost of Sales and Gross Profit

During the period under review, cost of sales dropped by HK\$7.9 million, or 9.6%, from HK\$82.2 million for the corresponding period in 2010 to HK\$74.3 million. This was due to production efficiencies which led to lower per unit material costs and also a decline in direct depreciation charges as some fixed assets have become fully depreciated. However, such favorable effects were partly offset by the substantial increase in direct labor costs. Wages have experienced a high inflation rate in China, in both Shenzhen and Beijing where the Group's plants are located, and are RMB-based which has also appreciated relative to the HK dollar during the period. As a result, gross profit dropped to HK\$22.4 million, down by HK\$5.5 million, or 19.7%, as compared to the corresponding period in 2010 of HK\$27.9 million. Due to the aforesaid, gross profit margin for the nine months ended 30 September 2011 dropped to 23.2%, as compared to 25.3% for the corresponding period in 2010.

To help off-set the negative impact of the market environment, the Group will continue to streamline its production and operations, including optimising internal resources, enhancing its cash management program, and negotiating with suppliers for better terms. New related value-added services and smartcard product innovations are also under development. Overall, we remain confident about the quality of the contribution of Intercard's business, which enjoys a sizable market share of the global outsourced SIM card production.

Other Revenue

Other revenue of HK\$13.9 million (*nine months ended 30 September 2010: HK\$0.81 million*) was mainly comprised of interest income arising from the amount due from a jointly controlled entity of HK\$5.9 million and interest income arising from amortisation of available-for-sale financial assets of HK\$4.7 million, handling fee income of HK\$2.9 million, as well as bank and other interest income and gain on disposal of fixed assets.

Selling and Distribution Costs

Selling and distribution costs increased by 5.8% over the corresponding period of last year to HK\$4.2 million (*nine months ended 30 September 2010: HK\$4.0 million*), and was attributable to the increases in freight charges and also in overseas travelling expenses for soliciting new orders and exploring new business opportunities.

Administrative Expenses

Administrative expenses recorded an increase of HK\$2.4 million or 14.3% over the corresponding period of last year to HK\$18.6 million (*nine months ended 30 September 2010: HK\$16.2 million*). The increase was attributable to the increases in legal and professional fees (for various corporate exercises and transactions of the Group), consultancy fees, rental expenses (for new office in Hong Kong) and various operating expenses during the period under review.

Finance Costs

During the period under review, the Group's finance costs amounted to HK\$0.43 million (*nine months ended 30 September 2010: HK\$0.39 million*).

Share of Results of a Jointly Controlled Entity

Share of losses of Hota, a jointly controlled entity, after tax amounted to HK\$12.2 million (*nine months ended 30 September 2010: HK\$2.7 million*). Hota's loss in the first nine months of 2011 was comprised of start-up operating expenses. Hota has completed its plant installation and is proceeding to the training for trial production. We expect Hota will start operations in Zhangjiagang with initial revenue contributions by the fourth quarter of 2011. Overseas operations were also established earlier to handle scrap automobile purchases and pre-processing of select parts. In the long-term, the Board believes that the Hota investment should provide the Group with direct exposure to the promising business opportunity presented by the recycling of metals and materials from scrapped automobiles and the sale of recovered and reusable parts. Hota's business is not only a good potential growth and profit driver for the Group, it is also an environmentally significant operation to conserve the earth's metals resources, reduce the amount of auto waste disposed globally, and increase the amount of energy efficient recycled steel production in China.

Income Tax Expense

Income tax expense of the Group for the nine months ended 30 September 2011 was HK\$2.54 million, representing a slight increase of 2.0% as compared to the corresponding period in 2010 of HK\$2.50 million. The increase was mainly attributable to the increase in taxable income derived from the interest income earned but was partly offset by the dropped in assessable profit from the smartcard business.

As a result of the foregoing, loss attributable to the owners of the Company for the nine months ended 30 September 2011 amounted to HK\$1.62 million (*nine months ended 30 September 2010: profit of HK\$2.84 million*).

During the period under review, the Company has completed the Share Subdivision and the Open Offer (as defined and disclosed in the sections headed “Share-Subdivision” and “Open Offer” below).

The Share Sub-division has the effect of decreasing the nominal value and trading price of each share and increasing the total number of shares in issue. The Board is of the view that the increase in the number of shares as a result of the Share Sub-division will improve the liquidity in trading of the subdivided shares, thereby enabling the Company to attract more investors and broaden its shareholder base. The Board also believes that the implementation of the Share Subdivision is in the interests of the Company and its shareholders as a whole and would not have any adverse effect on the financial position of the Company.

As for the Open Offer, having considered other fund raising alternatives for the Group, such as bank borrowings and placing of new Shares, and taking into account the benefits and cost of each of the alternatives, it was decided that the Open Offer would allow the Group to strengthen its balance sheet at the lowest cost and avoid a substantial increase in exposure to potentially rising interest rates in the future. The Board considered that the Open Offer was in the interest of the Company and the shareholders as a whole as it offers all the qualifying shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and enables the qualifying shareholders to maintain their proportionate interests in the Company and to continue to participate in the future development of the Company should they wish to do so. The estimated net proceeds from the Open Offer was approximately HK\$98.15 million. The Board intends to apply such proceeds from the Open Offer as funds for the future development of the existing business of the Group, and to take advantage of future new investment should opportunities which may arise.

LIQUIDITY AND FINANCIAL RESOURCES

During the period under review, the Group financed its business operations and investments with cash revenue generated from operating activities, bank loans, finance lease arrangements and net proceeds from issuance of new shares with the completion of the Open Offer. As at 30 September 2011, the Group had cash and bank balances of HK\$103.3 million, finance leases payable of HK\$0.74 million and a secured bank loan of HK\$22.75 million.

As at 30 September 2011, the Group had current assets of HK\$274.0 million and current liabilities of HK\$59.0 million. The current ratio, expressed as current assets over current liabilities, was maintained at a satisfactory level of 4.6.

GEARING RATIO

The gearing ratio of the Group, expressed as a percentage of total bank borrowings to total assets of the Group, was 6.0% as at 30 September 2011 (*30 June 2011: 7.5%*). Accordingly, the financial position of the Group has remained very liquid.

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

As at 30 September 2011, the interests or short position of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein, or which were required, pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Name of director	Nature of interest	Long/short Position	Number of shares of the Company	Number of underlying shares of the Company	Approximate percentage of interest in the Company's issued share capital
Lily Wu (<i>Note 1</i>)	Beneficial owner	Long	1,000,000	5,000,000	0.20
Chang Wei Wen	Beneficial owner	Long	5,250,000	–	0.17
Leung Quan Yue, Michelle (<i>Note 2</i>)	Beneficial owner	Long	200,000	2,500,000	0.09
Yang Meng Hsiu	Beneficial owner	Long	43,000,000	–	1.42

Notes:

1. As at 30 September 2011, the named director held 5,000,000 share options conferring rights to subscribe for 5,000,000 shares.
2. As at 30 September 2011, the named director held 2,500,000 share options conferring rights to subscribe for 2,500,000 shares.

Save as disclosed above, as at 30 September 2011, 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 September 2011, 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 any other member of the Group:

Long positions in shares of the Company

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	495,440,125	16.32
Best Heaven Limited (Note 1)	Beneficial	Long	311,050,000	10.25
Mr. Tsai Chi Yuan (Note 1)	Interests in controlled company	Long	806,490,125	26.57

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 September 2011, 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 any other member of the Group.

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 nine months ended 30 September 2011, the Group has 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 A 2.1 stipulated in the following paragraphs.

The Code provision A 2.1 stipulates that the roles of Chairman and Chief Executive Officer (“CEO”) should be separate 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 reason for not splitting the roles of chairman and chief executive officer are as follows:

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

Thus, the Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company.

DIRECTORS' SECURITIES TRANSACTIONS

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

Having made specific enquiry by the Company, all Directors have confirmed that they have complied with the required standard set out in such code of conduct throughout the nine months ended 30 September 2011.

AUDIT COMMITTEE

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

COMPETING INTERESTS

As at 30 September 2011, 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 nine months ended 30 September 2011, the Company repurchased 8,355,000 shares (and yet to be cancelled) of HK\$0.02 each in the capital of the Company at prices ranging from HK\$0.42 to HK\$0.50 per share on the Stock Exchange.

Particulars of repurchase of shares are as follows:

Date of repurchase	No. of Shares	Price per share		Aggregate
		Highest	Lowest	Price
		HK\$	HK\$	HK\$
23/8/2011	2,000,000	0.490	0.485	978,825
8/9/2011	600,000	0.470	n/a	282,000
14/9/2011	1,000,000	0.425	0.420	422,600
15/9/2011	2,000,000	0.440	n/a	880,000
16/9/2011	460,000	0.500	0.495	228,550
22/9/2011	995,000	0.455	n/a	452,725
30/9/2011	700,000	0.460	0.455	320,450
4/10/2011	<u>600,000</u>	0.440	0.435	<u>263,475</u>
TOTAL	<u>8,355,000</u>			<u>3,828,625</u>

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

SHARE SUB-DIVISION

Pursuant to the resolution passed at the extraordinary general meeting on 17 January 2011, each of the issued and unissued shares of HK\$0.1 in the share capital of the Company is sub-divided into five new shares of HK\$0.02 each (the "Share Sub-division"). Immediately after the Share Sub-division, the authorised share capital of the Company becomes HK\$100,000,000 divided into 5,000,000,000 shares of HK\$0.02 each by the creation of additional 4,000,000,000 shares, and the issued share capital becomes HK\$55,192,000 divided into 2,759,600,000 shares of HK\$0.02 each by the creation of additional 2,207,680,000 shares.

OPEN OFFER

In February 2011, the Company proposed to raise funds by way of an open offer of 275,960,000 shares at a price of HK\$0.36 per offer share on the basis of one offer share for every ten shares held (the “Open Offer”). Upon the completion of the Open Offer on 15 March 2011, the issued share capital of the Company has become HK\$60,711,200 divided into 3,035,560,000 shares of HK\$0.02. The net proceeds generated from the Open Offer amounted to approximately HK\$98,150,000.

For and on behalf of the Board

Lily Wu

Chairman

Hong Kong, 11 November 2011