



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 2013

**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 turnover of HK\$94,453,000 for the nine months ended 30 September 2013, representing a drop of 0.5% as compared with that of the corresponding period in 2012.
- The unaudited loss attributable to the owners of the Company for the nine months ended 30 September 2013 was HK\$9,192,000.
- The Board does not recommend any payment of an interim dividend for the nine months ended 30 September 2013.

## 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 2013 together with the comparative figures for the corresponding periods in 2012 as follows:

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>Notes</i>	Three months ended		Nine months ended	
		30 September	2012	30 September	2012
		2013	2012	2013	2012
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
<b>Revenue</b>	2	<b>35,947,989</b>	29,620,158	<b>94,452,531</b>	94,905,722
Cost of sales		<u>(32,777,731)</u>	<u>(22,535,687)</u>	<u>(88,488,634)</u>	<u>(74,365,412)</u>
Gross profit		<b>3,170,258</b>	7,084,471	<b>5,963,897</b>	20,540,310
Other income	3	<b>6,493,136</b>	4,770,192	<b>15,894,333</b>	14,228,914
Other gains and losses	4	<b>(206,800)</b>	(346,332)	<b>(681,070)</b>	(1,413,216)
Selling and distribution costs		<b>(1,784,722)</b>	(1,723,992)	<b>(5,135,386)</b>	(4,895,660)
Administrative expenses		<b>(8,221,935)</b>	(6,395,399)	<b>(23,209,651)</b>	(20,878,804)
Finance costs		<b>(1,046,410)</b>	(305,882)	<b>(1,598,622)</b>	(1,006,596)
Share of losses of a jointly controlled entity		<u>–</u>	<u>(8,072,057)</u>	<u>–</u>	<u>(18,369,679)</u>
<b>Loss before income tax</b>		<b>(1,596,473)</b>	(4,988,999)	<b>(8,766,499)</b>	(11,794,731)
Income tax expense	5	<u>(51,215)</u>	<u>210,444</u>	<u>(425,622)</u>	<u>(2,283,556)</u>
<b>Loss for the period</b>		<b><u>(1,647,688)</u></b>	<b><u>(4,778,555)</u></b>	<b><u>(9,192,121)</u></b>	<b><u>(14,078,287)</u></b>
<b>Other comprehensive income</b>					
Exchange gain on translation of financial statements of foreign operations		<u>201,648</u>	<u>29,472</u>	<u>1,324,008</u>	<u>557,766</u>
Other comprehensive income for the period		<u>201,648</u>	<u>29,472</u>	<u>1,324,008</u>	<u>557,766</u>
<b>Total comprehensive income for the period</b>		<b><u>(1,446,040)</u></b>	<b><u>(4,749,083)</u></b>	<b><u>(7,868,113)</u></b>	<b><u>(13,520,521)</u></b>
		<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
<b>Losses per share</b>	7				
– Basic		<u>(0.0521)</u>	<u>(0.1582)</u>	<u>(0.2925)</u>	<u>(0.4657)</u>
– Diluted		<u>(0.0521)</u>	<u>(0.1581)</u>	<u>(0.2918)</u>	<u>(0.4652)</u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HK\$	Subscription received HK\$	Convertible bonds equity reserve* HK\$	Contributed surplus* HK\$	Share option reserve* HK\$	Other reserves* HK\$	Translation reserve* HK\$	Available- for-sale financial assets revaluation reserve* HK\$	Warrant reserve* HK\$	Retained profits* HK\$	Total HK\$
At 1 January 2012	60,544,100	-	-	214,082,297	1,360,008	7	12,541,386	8,595,048	-	125,372,916	422,495,762
2011 final dividend paid during the period	-	-	-	(6,046,350)	-	-	-	-	-	-	(6,046,350)
Issue of unlisted warrants	-	-	-	-	-	-	-	-	4,000,000	-	4,000,000
Repurchase of shares	(157,400)	-	-	(2,544,717)	-	-	-	-	-	-	(2,702,117)
<b>Transactions with owners</b>	(157,400)	-	-	(8,591,067)	-	-	-	-	4,000,000	-	(4,748,467)
Loss for the period	-	-	-	-	-	-	-	-	-	(14,078,287)	(14,078,287)
Other comprehensive income – Translation of foreign operations	-	-	-	-	-	-	557,766	-	-	-	557,766
<b>Total comprehensive income for the period</b>	-	-	-	-	-	-	557,766	-	-	(14,078,287)	(13,520,521)
<b>At 30 September 2012</b>	<b>60,386,700</b>	<b>-</b>	<b>-</b>	<b>205,491,230</b>	<b>1,360,008</b>	<b>7</b>	<b>13,099,152</b>	<b>8,595,048</b>	<b>4,000,000</b>	<b>111,294,629</b>	<b>404,226,774</b>
At 1 January 2013	60,886,700	30,000,000	-	214,470,073	1,360,008	7	15,204,944	(1,404,299)	3,411,187	113,080,885	437,009,505
2012 final dividend paid during the period	-	-	-	(6,323,670)	-	-	-	-	-	-	(6,323,670)
Issue of shares upon exercise of unlisted warrants	2,350,000	(42,300,000)	-	42,240,371	-	-	-	-	(2,290,371)	-	-
Issue of Convertible Bonds	-	-	3,554,524	-	-	-	-	-	-	-	3,554,524
Cash paid by warrant holders to subscribe shares	-	12,300,000	-	-	-	-	-	-	-	-	12,300,000
<b>Transactions with owners</b>	2,350,000	(30,000,000)	3,554,524	35,916,701	-	-	-	-	(2,290,371)	-	9,530,854
Loss for the period	-	-	-	-	-	-	-	-	-	(9,192,121)	(9,192,121)
Other comprehensive income – Translation of foreign operations	-	-	-	-	-	-	1,324,008	-	-	-	1,324,008
<b>Total comprehensive income for the period</b>	-	-	-	-	-	-	1,324,008	-	-	(9,192,121)	(7,868,113)
<b>At 30 September 2013</b>	<b>63,236,700</b>	<b>-</b>	<b>3,554,524</b>	<b>250,386,774</b>	<b>1,360,008</b>	<b>7</b>	<b>16,528,952</b>	<b>(1,404,299)</b>	<b>1,120,816</b>	<b>103,888,764</b>	<b>438,672,246</b>

\* The total of these accounts as at the reporting date represents “Reserves” in the consolidated statement of financial position.

## NOTES:

### 1. BASIS OF PREPARATION

This unaudited condensed consolidated financial information for the nine months ended 30 September 2013 has 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 (“HKICPA”). The condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2012.

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 2013, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2012, as described in those annual financial statements. The Directors anticipate that the application of these new and revised HKFRSs will not have material impact on the condensed consolidated financial information of the Group.

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

The Group has not early applied the new and revised HKFRSs that have been issued by the HKICPA but are not yet effective. The application of these new and revised HKFRSs will not have material impact on the unaudited condensed consolidated financial information of the Group.

The preparation of 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 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 annual consolidated financial statements for the year ended 31 December 2012.

### 2. REVENUE

Turnover of the Group is the revenue from these activities. Revenue from the Group’s principal activities recognized during the period is as follows:

	<b>Unaudited</b>		<b>Unaudited</b>	
	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>30 September</b>		<b>30 September</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<b>HK\$</b>	<b>HK\$</b>	<b>HK\$</b>	<b>HK\$</b>
Sales of smart cards and plastic cards	<b>34,441,320</b>	28,548,220	<b>89,666,001</b>	91,684,233
Sales of smart card applications systems	<b>8,170</b>	4,000	<b>22,728</b>	30,670
Trading of scrapped automobiles/metals	–	–	<b>898,807</b>	–
Financial and management consultancy services	<b>1,498,499</b>	1,067,938	<b>3,864,995</b>	3,190,819
	<b>35,947,989</b>	29,620,158	<b>94,452,531</b>	94,905,722

### 3. OTHER INCOME

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	2013	2012	2013	2012
	HK\$	HK\$	HK\$	HK\$
Interest income ( <i>note (a)</i> )	6,493,136	4,767,887	15,377,414	14,168,984
Government subsidy ( <i>note (b)</i> )	–	–	497,512	–
Sundry income	–	2,305	19,407	59,930
	<u>6,493,136</u>	<u>4,770,192</u>	<u>15,894,333</u>	<u>14,228,914</u>

Notes:

- (a) Interest income comprises interest income arising from amount due from jointly-controlled entities and bank deposits of HK\$15,377,414 (nine months ended 30 September 2012: HK\$9,020,675) in aggregate which are financial assets not at fair value through profit or loss, as well as interest income arising from amortisation of available-for-sale financial assets of nil (nine months ended 30 September 2012: HK\$5,148,309).
- (b) A one-off unconditional government subsidy received from the PRC government during the period.

### 4. OTHER GAINS AND LOSSES

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	2013	2012	2013	2012
	HK\$	HK\$	HK\$	HK\$
Gain (loss) on disposal of property, plant and equipment	–	36,263	(4,818)	88,249
Exchange losses, net	(206,800)	(382,595)	(676,252)	(1,501,465)
	<u>(206,800)</u>	<u>(346,332)</u>	<u>(681,070)</u>	<u>(1,413,216)</u>

### 5. INCOME TAX EXPENSE

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	2013	2012	2013	2012
	HK\$	HK\$	HK\$	HK\$
<b>Current tax</b>				
– Hong Kong Profits Tax				
Current year	31,100	1,169,000	368,100	3,663,000
Under/(Over) provision for prior year	20,115	(1,379,444)	20,115	(1,379,444)
	<u>51,215</u>	<u>(210,444)</u>	<u>388,215</u>	<u>2,283,556</u>
– PRC Enterprise Income Tax				
Current year	–	–	37,407	–
Total income tax expense	<u>51,215</u>	<u>(210,444)</u>	<u>425,622</u>	<u>2,283,556</u>

Hong Kong Profits Tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits for the period. Taxation for subsidiaries established and operated in the PRC is calculated on the estimated assessable profit for the period 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 EIT at the rate of 25% (2012: 25%).

## 6. DIVIDEND

The Board does not recommend any payment of an interim dividend for the nine months ended 30 September 2013 (nine months ended 30 September 2012: NIL).

The final dividend of HK\$0.002 (2011: HK\$0.002) per share for the year ended 31 December 2012 had been approved and was paid before 31 May 2013.

## 7. LOSSES PER SHARE

### (a) Basic losses per share

The calculation of basic losses per share is based on the losses for the three months and the nine months ended 30 September 2013 of HK\$1,647,688 and HK\$9,192,121 respectively (three months and nine months ended 30 September 2012: HK\$4,778,555 and HK\$14,078,287 respectively) and the weighted average of 3,161,835,000 and 3,142,375,293 ordinary shares in issue during the periods (three months and nine months ended 30 September 2012: 3,020,236,739 and 3,023,008,358 ordinary shares respectively).

### (b) Diluted losses per share

The calculation of diluted losses per share is based on the losses for the three months and the nine months ended 30 September 2013 of HK\$1,647,688 and HK\$9,192,121 respectively (three months and nine months ended 30 September 2012: HK\$4,778,555 and HK\$14,078,287 respectively) and the weighted average of 3,163,638,886 and 3,149,708,542 ordinary shares (three months and nine months ended 30 September 2012: 3,022,624,722 and 3,026,310,944 ordinary shares respectively), calculated as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2013	2012	2013	2012
Weighted average number of ordinary shares used in the calculation of basic losses per share	<b>3,161,835,000</b>	3,020,236,739	<b>3,142,375,293</b>	3,023,008,358
Effect of deemed issue of shares under the Company's share option scheme	<b>1,569,033</b>	2,387,983	<b>2,396,267</b>	3,240,836
Effect of deemed issue of shares on exercise of convertible bonds	<b>234,853</b>	–	<b>4,936,982</b>	61,750
Effect of deemed issue of shares on exercise of warrants	–	–	–	–
Weighted average number of ordinary shares for the purpose of calculating diluted losses per share	<b><u>3,163,638,886</u></b>	<u>3,022,624,722</u>	<b><u>3,149,708,542</u></b>	<u>3,026,310,944</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operation and Financial Review

#### *Revenue*

During the period under review, the Group's financial results was principally derived from its Intercard subsidiary which is engaged in the contract manufacturing and sales of smart cards and plastic cards, the provision of customised smart card application systems and also the provision of management and financial consultancy services. The Group has also formally commenced its trading of scrapped metals business in late March 2013.

Revenue generated from the smartcard business in the 3rd quarter reached to HKD34.4 million, increased by HKD10.0 million or 41.4% as compared to the 2nd quarter of HKD24.4 million, and was attributable to the up-tick in seasonal demand from the telecommunication market, and excess inventory in the first half being digested which led to a return of new orders. The new module packaging and testing service business commenced commercial production in 2012Q4, and during the period under review, contributed an initial revenue of HK\$10.3 million. This business is still in its initial qualifications stage with new customers, with capacity remaining under-utilized, thus generating a gross loss which weighed down the overall gross profit margin. In 2013, year-to-date, the Group's revenue generated from the smartcard business (including module packaging and testing service) was HK\$89.7 million, down by HK\$2.0 million or 2.2% as compared to the corresponding period in 2012 of HK\$91.7 million. The decrease over last year was due to both lower order volumes and price-cuts that have been offered to select card packaging customers in exchange for greater sales volume. The use of pre-paid mobile SIM cards appears to be in slight decline with the increased use smart phones, leading Intercard to increasingly focus on securing non-telecommunications applications for its smart card manufacturing services.

Revenue generated from the provision of management and financial consultancy services amounted to HK\$3.9 million during the period under review, representing an increase of HK\$0.7 million as compared to the corresponding period in last year of HK\$3.2 million.

The Group's new trading of scrapped metal business recorded a revenue of HK\$0.9 million during the period under review. This segment is expected to ramp up steadily in Q4 and next year.



### ***Cost of Sales and Gross Profit***

During the period under review, cost of sales increased by HK\$14.1 million, or 19.0%, from HK\$74.4 million for the corresponding period of 2012, to HK\$88.5 million. The increase in cost of sales was largely attributable to an additional approximately HK\$16.8 million in direct costs and overheads incurred (e.g. salary, depreciation charge and various factory overheads) in relation to the module packaging and testing service business (which had commenced commercial production in 2012Q4 and was still under-utilized as it undergoes qualification from new customers).

As a result, gross profit dropped to HK\$6.0 million, down by HK\$14.6 million, or 71.0%, as compared to the corresponding period in last year of HK\$20.6 million.

### ***Other Income***

Other revenue of HK\$15.9 million (nine months ended September 2012: HK\$14.2 million which was represented by interest income arising from the amount due from a jointly controlled entity and bank deposits of HK\$9.0 million as well as interest income arising from amortization of available-for-sale financial assets of HK\$5.2 million) was mainly comprised of interest income arising from the amount due from jointly controlled entities and bank deposits of HK\$15.4 million plus sundry revenue of HK\$0.5 million.

### ***Other Gains or Losses***

During the period under review, other losses amounted to HK\$0.68 million (nine months ended 30 September 2012: HK\$1.40 million) which was primarily represented by the exchange losses arising from the foreign currency-based transactions.

### ***Selling and Distribution Costs***

Selling and distribution costs increased by 4.9% over the corresponding period in 2012 to HK\$5.14 million (nine months ended 30 September 2012: HK\$4.90 million), and was mainly attributable to the increases in various expenses associated with the new module packaging and testing service business but partly offset by the drop of certain expenses for smartcard business due to the drop in sales.

### ***Administrative Expenses***

Administrative expenses recorded an increase of HK\$2.3 million or 11.2% over the corresponding period in 2012 to HK\$23.2 million (nine months ended 30 September 2012: HK\$20.9 million). The increase was primarily attributable to the incurrence of various administrative expenses (e.g. salary, rentals and office depreciation etc.) of a total of HK\$2.0 million for the Group's new businesses, namely, the trading of scrapped metals in Taiwan, which commenced business in late 2013Q1.

### ***Finance Costs***

During the period under review, the Group's finance costs amounted to HK\$1.6 million (nine months ended 30 September 2012: HK\$1.0 million), the increase was due primarily to the issuance of certain convertible bonds of the Company.

### ***Share of Losses of a Jointly Controlled Entity***

During the period under review, the Group did not recognize any further losses of Hota, a jointly controlled entity, as the Group's share of losses of Hota has exceeded the interest in the jointly controlled entity (nine months ended 30 September 2012: loss of HK\$18.4 million).

Hota was loss-making in the period under review, attributable to operations being below optimal utilization levels due to the early trial period nature of establishing sourcing and delivery channels and fine tuning production. We expect commercial volumes of recycling and parts sales to increase measurably by the fourth quarter of 2013 or the first quarter of 2014. It is expected that Hota's earnings potential will gradually ramp up in the coming quarters to become a net contributor to the Group.

### ***Income Tax Expense***

During the period under review, the income tax expense of the Group amounted to HK\$0.4 million (nine months ended 30 September 2012: HK\$2.3 million).

As a result of the foregoing, loss attributable to the owners of the Company for the nine months ended 30 September 2013 amounted to HK\$9.2 million, representing a drop of HK\$4.9 million as compared to HK\$14.1 million for the corresponding period in 2012.

## **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 unlisted warrants and convertible bonds. As at 30 September 2013, the Group had cash and bank balances of HK\$16.7 million, finance leases payable of HK\$0.2 million and a secured bank loan of HK\$41.6 million.

As at 30 September 2013, the Group had current assets of HK\$355.3 million and current liabilities of HK\$117.4 million. The current ratio, expressed as current assets over current liabilities, was maintained at a satisfactory level of 3.0.

## **GEARING RATIO**

The gearing ratio of the Group, expressed as a percentage of total borrowings to total assets of the Group, was 10.0% as at 30 September 2013 (30 June 2013: 6.5%).

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

As at 30 September 2013, 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	0.19
Chang Wei Wen	Beneficial owner	Long	5,250,000	–	0.17
Yang Meng Hsiu	Beneficial owner	Long	43,000,000	–	1.36

*Note:*

1. These include 5,000,000 share options conferring rights to subscribe for 5,000,000 shares.

Save as disclosed above, as at 30 September 2013, 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 2013, 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	504,885,125	15.97
Best Heaven Limited (Note 1)	Beneficial	Long	315,565,000	9.98
Mr. Tsai Chi Yuan (Note 1)	Interests in controlled company	Long	820,450,125	25.95

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 2013, 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 2013, 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 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 reasons 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 2013.

## **AUDIT COMMITTEE**

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

The Group’s unaudited results for the three months and the nine months ended 30 September 2013 have been reviewed by the audited committee.

## **COMPETING INTERESTS**

As at 30 September 2013, 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 2013, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities.

For and on behalf of the Board

**Lily Wu**

*Chairman*

Hong Kong, 12 November 2013