



PHOENITRON

**PHOENITRON HOLDINGS LIMITED**

**品創控股有限公司**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8066)**

**FIRST QUARTERLY REPORT  
FOR THE THREE MONTHS ENDED 31 MARCH 2014**

**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.*

## **HIGHLIGHTS**

- Revenue for the three months ended 31 March 2014 amounted to HK\$34,560,000, representing an increase of 7.3% as compared to the corresponding period in 2013 of HK\$32,219,000.
- The Group recorded an unaudited profit attributable to the owners of the Company of HK\$1,275,000 for the three months ended 31 March 2014.
- The Board does not recommend any payment of an interim dividend for the three months ended 31 March 2014.

## UNAUDITED FIRST QUARTERLY 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 ended 31 March 2014 together with the comparative figures for the corresponding period in 2013 as follows:

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		<b>Three months ended</b>	
		<b>31 March</b>	
	<i>Notes</i>	<b>2014</b>	2013
		<b><i>HK\$</i></b>	<b><i>HK\$</i></b>
<b>Revenue</b>	2	<b>34,560,221</b>	32,218,983
Cost of sales		<u><b>(31,598,933)</b></u>	<u>(30,767,362)</u>
Gross profit		<b>2,961,288</b>	1,451,621
Other income	3	<b>9,791,320</b>	4,247,665
Other gains and losses	4	<b>(358,571)</b>	(250,189)
Selling and distribution costs		<b>(1,678,360)</b>	(1,531,036)
Administrative expenses		<b>(8,193,898)</b>	(7,504,883)
Finance costs		<u><b>(1,208,959)</b></u>	<u>(270,958)</u>
<b>Profit/(Loss) before income tax</b>		<b>1,312,820</b>	(3,857,780)
Income tax expense	5	<u><b>(38,000)</b></u>	<u>(50,000)</u>
<b>Profit/(Loss) for the period</b>		<u><b>1,274,820</b></u>	<u>(3,907,780)</u>
<b>Other comprehensive income</b>			
Exchange gain on translation of financial statements of foreign operations		<u><b>(444,195)</b></u>	<u>350,280</u>
Other comprehensive income for the period		<u><b>(444,195)</b></u>	<u>350,280</u>
<b>Total comprehensive income for the period</b>		<u><b>830,625</b></u>	<u>(3,557,500)</u>
		<b><i>HK cents</i></b>	<b><i>HK cents</i></b>
<b>Earnings/(Losses) per share</b>	7		
– Basic		<b>0.040</b>	(0.125)
– Diluted		<u><b>0.040</b></u>	<u>n/a</u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the three months ended 31 March 2014*

	Share capital HK\$	Share Subscription received 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/ (Accumulated losses)* HK\$	Total HK\$
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
Issue of shares upon exercise of non-listed warrants	1,500,000	(27,000,000)	26,961,939	-	-	-	-	(1,461,939)	-	-
Cash paid by warrant holders to subscribe shares	-	8,800,000	-	-	-	-	-	-	-	8,800,000
<b>Transactions with owners</b>	<u>1,500,000</u>	<u>(18,200,000)</u>	<u>26,961,939</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,461,939)</u>	<u>-</u>	<u>8,800,000</u>
Loss for the period	-	-	-	-	-	-	-	-	(3,907,780)	(3,907,780)
Other comprehensive income - Translation of foreign operations	-	-	-	-	-	350,280	-	-	-	350,280
<b>Total comprehensive income for the period</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>350,280</u>	<u>-</u>	<u>-</u>	<u>(3,907,780)</u>	<u>(3,557,500)</u>
<b>At 31 March 2013</b>	<b><u>62,386,700</u></b>	<b><u>11,800,000</u></b>	<b><u>241,432,012</u></b>	<b><u>1,360,008</u></b>	<b><u>7</u></b>	<b><u>15,555,224</u></b>	<b><u>(1,404,299)</u></b>	<b><u>1,949,248</u></b>	<b><u>109,173,105</u></b>	<b><u>442,252,005</u></b>
At 1 January 2014	63,236,700	-	249,769,808	1,360,008	3,482,731	17,386,926	91,768	1,120,818	(27,932,934)	308,515,825
Lapse of non-listed warrants	-	-	-	-	-	-	-	(1,120,818)	1,120,818	-
Redemption of convertible bonds	-	-	-	-	(1,208,826)	-	-	-	1,208,826	-
Share repurchased on 2013 and cancelled during the period	(71,800)	-	-	-	71,800	-	-	-	-	-
<b>Transactions with owners</b>	<u>(71,800)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,137,026)</u>	<u>-</u>	<u>-</u>	<u>(1,120,818)</u>	<u>2,329,644</u>	<u>-</u>
Profit for the period	-	-	-	-	-	-	-	-	1,274,820	1,274,820
Other comprehensive income - Translation of foreign operations	-	-	-	-	-	(444,195)	-	-	-	(444,195)
<b>Total comprehensive income for the period</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(444,195)</u>	<u>-</u>	<u>-</u>	<u>1,274,820</u>	<u>830,625</u>
<b>At 31 March 2014</b>	<b><u>63,164,900</u></b>	<b><u>-</u></b>	<b><u>249,769,808</u></b>	<b><u>1,360,008</u></b>	<b><u>2,345,705</u></b>	<b><u>16,942,731</u></b>	<b><u>91,768</u></b>	<b><u>-</u></b>	<b><u>(24,328,470)</u></b>	<b><u>309,346,450</u></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 three months ended 31 March 2014 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 2013.

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 2014, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2013, 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 2013.

### 2. REVENUE

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

	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2014</b>	2013
	<b>HK\$</b>	HK\$
Sales of smart cards and plastic cards	<b>33,084,650</b>	30,864,979
Sales of smart card application systems	<b>19,040</b>	14,558
Trading of scrap metals	–	898,807
Service income	<b>1,456,531</b>	440,639
	<b>34,560,221</b>	32,218,983

### 3. OTHER INCOME

	Three months ended	
	31 March	
	2014	2013
	HK\$	HK\$
Interest income ( <i>Note</i> )	9,779,320	3,742,669
Sundry income	12,000	504,996
	<u>9,791,320</u>	<u>4,247,665</u>

*Note:*

Interest income comprises interest income arising from amount due from joint ventures and bank deposits in aggregate which are financial assets not at fair value through profit or loss.

### 4. OTHER GAINS AND LOSSES

	Three months ended	
	31 March	
	2014	2013
	HK\$	HK\$
Exchange losses, net	(358,571)	(250,189)
	<u>(358,571)</u>	<u>(250,189)</u>

### 5. INCOME TAX EXPENSE

	Three months ended	
	31 March	
	2014	2013
	HK\$	HK\$
<b>Current tax</b>		
Hong Kong Profits Tax:		
Current period	38,000	50,000
Total income tax expense	<u>38,000</u>	<u>50,000</u>

Hong Kong Profits Tax has been provided at the rate of 16.5% (2013: 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. No provision for PRC Enterprise Income Tax ("EIT") has been made for the period as the subsidiaries sustained tax losses during the period.

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% (2013: 25%).

## 6. DIVIDENDS

The Board does not recommend any payment of an interim dividend for the three months ended 31 March 2014 (three months ended 31 March 2013: NIL).

## 7. EARNINGS/(LOSSES) PER SHARE

### (a) Basic earnings (losses) per share

The calculation of basic earnings per share for the three months ended 31 March 2014 is based on the profit of HK\$1,274,820 and the weighted average of 3,159,162,444 ordinary shares in issue during the period. The calculation of basic losses per share for the three months ended 31 March 2013 is based on the loss of HK\$3,907,780 and the weighted average of 3,114,612,778 ordinary shares in issue during the period.

### (b) Diluted earnings (losses) per share

The calculation of diluted earnings per share for the three months ended 31 March 2014 is based on the profit of HK\$1,274,820 and the weighted average of 3,159,263,679 ordinary shares, calculated as follows:

	2014
Weighted average number of ordinary shares used in the calculation of basic earnings per share	3,159,162,444
Effect of deemed issue of shares under the Company's share option scheme	<u>101,235</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u><u>3,159,263,679</u></u>

No adjustment has been made to the basic loss per share for the three months ended 31 March 2013 as the outstanding share options and warrants had anti-dilutive effect on the basic loss per share.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operations 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, the trading of scrap metals and also the provision of management and financial consultancy services.

During the period under review, the Group's revenue generated from the smartcard business (including module packaging and testing service) amounted to HK\$33.1 million, up by HK\$2.2 million or 7.2% as compared to the corresponding period in 2013 of HK\$30.9 million, among which HK\$27.1 million (three months ended 31 March 2013: HK\$23.1 million) and HK\$6.0 million (three months ended 31 March 2013: HK\$7.8 million) were attributable to the traditional SIM cards business and the module packaging and testing service business respectively. Revenue of HK\$33.1 million generated during the period under review dropped by HK\$2.0 million as compared to the revenue in 2013Q4 of HK\$35.1 million, as the first quarter of each year is a traditional low-season period. During the period under review, despite the new module packaging and testing service business was still in its qualifications stage with many new customers, and capacity remaining under-utilized and therefore generating a gross loss which weighed down the overall gross profit margin, revenue generated during this period increased slightly by HK\$1.4 million as compared to the last quarter of HK\$4.6 million. It is expected that commercial production shall continue to ramp up throughout 2014 and may be able to breakeven in 2014Q3, at the earliest.

Revenue generated from the provision of management and financial consultancy services amounted to HK\$1.46 million during the period under review, representing an increase of HK\$1.02 million as compared to the corresponding period in last year of HK\$0.44 million.

The Group's trading of scrap metal business did not generate revenue during the period under review (three months ended 31 March 2013: HK\$0.90 million). However, certain machines and equipment were acquired and installed in Taiwan, and are undergoing testing. The use of these new machines and equipment shall enhance the gross profit margin of this business segment and the transaction volume is expected to ramp up in early 2014Q3.



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

During the period under review, cost of sales increased by HK\$0.8 million, or 2.7%, from HK\$30.8 million for the corresponding period of 2013, to HK\$31.6 million. The increase in cost of sales was related to the increase in sales of smartcard business of HK\$2.2 million or by 7.2%.

As a result, gross profit increased to HK\$2.9 million, up by HK\$1.5 million, or 104.0%, as compared to the corresponding period in last year of HK\$1.4 million.

### ***Other Income***

Other revenue of HK\$9.79 million (three months ended 31 March 2013: HK\$4.25 million) was mainly comprised of interest income arising from the amount due from joint ventures and bank deposits of HK\$9.78 million (three months ended 31 March 2013: HK\$3.74 million) plus sundry revenue of HK\$0.01 million (three months ended 31 March 2013: HK\$0.50 million).

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

During the period under review, other losses amounted to HK\$0.36 million (three months ended 31 March 2013: HK\$0.25 million) which was represented by the exchange losses arising from foreign currency-based transactions.

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

Selling and distribution costs increased by 9.6% over the corresponding period in 2013 to HK\$1.68 million (three months ended 31 March 2013: HK\$1.53 million), and was mainly attributable to the incurrence of promotional expenses associated with the smartcard business and the module packaging and testing service business.

### ***Administrative Expenses***

Administrative expenses recorded an increase of HK\$0.7 million or 9.2% over the corresponding period in 2013 to HK\$8.2 million (three months ended 31 March 2013: HK\$7.5 million). The increase was primarily attributable to the incurrence of certain legal fees and the increase in various administrative expenses for the Group's trading of scrap metals business in Taiwan, which had formally commenced in late 2013Q1.

### ***Finance Costs***

During the period under review, the Group's finance costs amounted to HK\$1.21 million (three months ended 31 March 2013: HK\$0.27 million), the increase was due largely to the interests accrued and payable in relation to the issuance of certain convertible bonds of the Company in 2013Q3.

### *Share of Losses of a Joint Venture*

During the period under review, the Group did not recognize any further losses of Hota, a joint venture, as the Group's share of losses of Hota, has exceeded the interest in the jointly venture (three months ended 31 March 2013: NIL).

### *Income Tax Expense*

During the period under review, the income tax expense of the Group amounted to HK\$0.04 million (three months ended 31 March 2013: HK\$0.05 million).

As a result of the foregoing, profit attributable to the owners of the Company for the three months ended 31 March 2014 amounted to HK\$1.27 million, representing an increase of HK\$5.18 million as compared to the loss of HK\$3.91 million for the corresponding period in 2013.

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

As at 31 March 2014, 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:

<b>Name of director</b>	<b>Nature of interest</b>	<b>Long/short position</b>	<b>Number of shares of the Company</b>	<b>Number of Underlying shares of the Company</b>	<b>Approximate percentage of interest in the Company's issued share capital</b>
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 31 March 2014, 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 31 March 2014, 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:

<b>Name of shareholders</b>	<b>Type of interests</b>	<b>Long/short position</b>	<b>Number of shares of the Company</b>	<b>Approximate percentage of interests</b>
Golden Dice Co., Ltd. <i>(Note 1)</i>	Beneficial	Long	504,885,125	15.98
Best Heaven Limited <i>(Note 1)</i>	Beneficial	Long	315,565,000	9.99
Mr. Tsai Chi Yuan <i>(Note 1)</i>	Interests in controlled company	Long	820,450,125	25.97

*Note:*

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

Save as disclosed above, as at 31 March 2014, the Directors are not aware of any other persons or corporation (other than the Directors and chief executive of the Company) having an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

## **LIQUIDITY AND FINANCIAL RESOURCES/CAPITAL STRUCTURE**

During the period under review, the Group financed its business operations and investments with cash revenue generated from operating activities, bank and other loans, and finance lease arrangements. As at 31 March 2014, the Group had cash and bank balances of HK\$9.3 million, finance leases payable of HK\$0.1 million, secured bank loans of HK\$35.6 million and other loans of HK\$15.7 million.

As at 31 March 2014, the Group had current assets of HK\$308.3 million and current liabilities of HK\$111.5 million. The current ratio, expressed as current assets over current liabilities, was maintained at a level of 2.76.

### **GEARING RATIO**

The gearing ratio of the Group, expressed as a percentage of total borrowings to total assets of the Group, was 14.1% as at 31 March 2014 (31 December 2013: 14.9%).

### **AUDIT COMMITTEE**

The Company has established an audit committee with written terms of reference in compliance with the GEM Listing Rules. 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 Group's results for the three months ended 31 March 2014 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 three months ended 31 March 2014, 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 three months ended 31 March 2014.

#### **COMPETING INTERESTS**

As at 31 March 2014, none of the directors or the management shareholders or any of its respective associates (as defined under the GEM Listing Rules) of the Company had any interest in a business that competed or might compete with the business of the Group directly or indirectly.

## **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

During the three months ended 31 March 2014, the Company redeemed certain convertible bonds of the Company in the principal amount of HK\$5,670,000 from one of the holders of the convertible bonds.

Save as aforesaid, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities during the three months ended 31 March 2014.

By order of the Board

**Lily Wu**

*Chairman*

Hong Kong, 9 May 2014