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 2016

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 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. 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 Phoenitron Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

HIGHLIGHTS

- Unaudited revenue for the three months ended 31 March 2016 amounted to HK$683,725,000, representing an increase of 134.3% as compared to the corresponding period in 2015 of HK$291,842,000.
- The Group recorded an unaudited profit attributable to the owners of the Company of HK$2,722,000 for the three months ended 31 March 2016.
- The Board does not recommend any payment of an interim dividend for the three months ended 31 March 2016.

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 2016 together with the comparative figures for the corresponding period in 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Unaudited Three months ended 31 March	
		2016	2015
	Notes	***HK$***	*HK$*
Revenue	*2*	**683,724,896**	291,842,018
Cost of sales		**(679,623,404)**	(283,608,184)
Gross profit		**4,101,492**	8,233,834
Other income	*3*	**9,045,072**	10,838,300
Other gains/(losses), net	*4*	**827,328**	(2,143,752)
Selling and distribution costs		**(2,134,565)**	(1,917,820)
Administrative expenses		**(8,492,240)**	(8,070,543)
Finance costs		**(231,088)**	(533,778)
Profit before income tax		**3,115,999**	6,406,241
Income tax expense	*5*	**(240,705)**	(503,796)
Profit for the period		**2,875,294**	5,902,445
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange gain/(loss) on translation of financial statements of foreign operations		**598,856**	(251,111)
Other comprehensive income for the period		**598,856**	(251,111)
Total comprehensive income for the period		**3,474,150**	5,651,334

	Notes	Unaudited Three months ended 31 March **2016** ***HK$***	 2015 *HK$*
Profit for the period attributable to:			
Owners of the Company		**2,721,705**	5,823,848
Non-controlling interests		**153,589**	78,597
		2,875,294	5,902,445
Total comprehensive income for the period attributable to:			
Owners of the Company		**3,176,961**	5,568,087
Non-controlling interests		**297,189**	83,247
		3,474,150	5,651,334
		HK cents	*HK cents*
Earnings per share for profit attributable to the owners of the Company	*7*		
– Basic and diluted		**0.072**	0.171

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2016

	Unaudited									
	Share capital	Contributed surplus*	Share option reserve*	Other reserves*	Translation reserve*	Available-for-sale financial assets revaluation reserve*	Accumulated losses*	Total reserve	Non-controlling interests	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
At 1 January 2015	68,049,500	298,913,080	1,360,008	7	16,809,819	(11,739,442)	(161,087,228)	144,256,244	3,793,244	216,098,988
Profit for the period	–	–	–	–	–	–	5,823,848	5,823,848	78,597	5,902,445
Other comprehensive income										
– Translation of foreign operations	–	–	–	–	(255,761)	–	–	(255,761)	4,650	(251,111)
Total comprehensive income for the period	–	–	–	–	(255,761)	–	5,823,848	5,568,087	83,247	5,651,334
At 31 March 2015	**68,049,500**	**298,913,080**	**1,360,008**	**7**	**16,554,058**	**(11,739,442)**	**(155,263,380)**	**149,824,331**	**3,876,491**	**221,750,322**
At 1 January 2016	75,283,900	377,510,078	1,360,008	7	8,834,474	(11,739,442)	(155,557,975)	220,407,150	25,456,771	321,147,821
Profit for the period	–	–	–	–	–	–	2,721,705	2,721,705	153,589	2,875,294
Other comprehensive income										
– Translation of foreign operations	–	–	–	–	455,256	–	–	455,256	143,600	598,856
Total comprehensive income for the period	–	–	–	–	455,256	–	2,721,705	3,176,961	297,189	3,474,150
At 31 March 2016	**75,283,900**	**377,510,078**	**1,360,008**	**7**	**9,289,730**	**(11,739,442)**	**(152,836,270)**	**223,584,111**	**25,753,960**	**324,621,971**

* 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 2016 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 2015.

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 2016, the accounting policies applied are consistent with those of the audited annual financial statements of the Group for the year ended 31 December 2015, as described in those audited annual financial statements. 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.

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 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 2015.

2. REVENUE

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

	Unaudited Three months ended 31 March	
	2016	2015
	HK$	*HK$*
Sales of smart cards*	**20,247,974**	53,027,394
Sales of smart card application systems	**11,500**	10,050
Sales of petro-chemical products	**661,988,949**	237,348,043
Financial and management consultancy services	**1,476,473**	1,456,531
	683,724,896	291,842,018

* Renamed from "Sales of smart cards and plastic cards" to "Sales of smart cards".

3. OTHER INCOME

	Unaudited Three months ended 31 March	
	2016	2015
	HK$	*HK$*
Interest income *(Note)*	**9,017,675**	10,837,838
Sundry income	**27,397**	462
	9,045,072	10,838,300

Note:

Interest income comprises interest income arising from amount due from a joint venture (Note 8) and bank deposits in aggregate which are financial assets not at fair value through profit or loss.

4. OTHER GAINS/(LOSSES), NET

	Unaudited Three months ended 31 March	
	2016	2015
	HK$	*HK$*
Exchange gain/(loss), net	**827,328**	(2,143,752)
	827,328	(2,143,752)

5. INCOME TAX EXPENSE

	Unaudited Three months ended 31 March	
	2016	2015
	HK$	*HK$*
Current tax		
Hong Kong Profits Tax:		
Current period	**58,000**	399,000
	58,000	399,000
PRC Enterprise Income Tax (“EIT”):		
Current period	**182,705**	104,796
Total income tax expense	**240,705**	503,796

Hong Kong Profits Tax has been provided at the rate of 16.5% (2015: 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% (2015: 25%).

6. DIVIDENDS

The Board does not recommend any payment of an interim dividend for the three months ended 31 March 2016 (three months ended 31 March 2015: NIL).

7. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the three months ended 31 March 2016 is based on the unaudited profit attributable to the owners of the Company of HK$2,721,705 (three months ended 31 March 2015: HK$5,823,848) and the weighted average of 3,764,195,000 ordinary shares (three months ended 31 March 2015: 3,402,475,000 shares) in issue during the period.

(b) Diluted earnings per share

No adjustment has been made to basic earnings per share as the outstanding share options had anti-dilutive effect on the basic earnings per share for the three months ended 31 March 2016.

The calculation of diluted earnings per share for the three months ended 31 March 2015 is based on the unaudited profit attributable to the owners of the Company of HK$5,823,848 and the weighted average of 3,404,272,590 ordinary shares, calculated as follows:

	2015
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**3,402,475,000**
Effect of deemed issue of shares under the Company's share option scheme	**1,797,590**
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**3,404,272,590**

8. AMOUNT DUE FROM A JOINT VENTURE

The unaudited balances as at 31 March 2016 was HK$214,223,377 (31 December 2015: HK$202,837,077), comprise loans (after impairment) to Hota (USA) Holdings Corp. ("Hota (USA)") and to Hota Auto Recycling Corporation (a wholly owned subsidiary of Hota (USA)), which are unsecured, interest bearing at 10% and 19% per annum respectively and repayable on demand (collectively the "Loans"). The Group did not hold any collateral over the Loans.

MANAGEMENT DISCUSSION AND ANALYSIS

Operations and Financial Review

Revenue

During the period under review, the Group's financial results was principally derived from the sales of petro-chemical products, the contract manufacturing and sales of smart cards and the provision of management and financial consultancy services.

During the period under review, revenue generated from the sales of petro-chemical products conducted by Shanghai Phoenitron and its subsidiary amounted to HK$662.0 million, representing an increase of about HK$424.7 million, or 178.9%, as compared to the corresponding period in 2015 of HK$237.3 million. The increase was primarily due to the fact that Shanghai Phoenitron was still in its early stage of business development in 2015Q1. Shanghai Renzhong, a wholly-owned subsidiary of Shanghai Phoenitron, had successfully obtained the retail licence for selling oils products by late 2015 and was able to conduct initial retail transactions in 2016Q1. This move marked an important step as retail sales of oil products will better diversify product sales and may enjoy a higher profit margin than wholesale. We therefore expect 2016 segment sales to be a mixture of wholesale and retail sales, with an overall higher profit margin level than in 2015.

During the period under review, the Group's revenue generated from the smartcard business (including module packaging and testing service) amounted to HK$20.2 million, down by HK$32.8 million or 61.8% as compared to the corresponding period in 2015 of HK$53.0 million, among which HK$12.7 million (three months ended 31 March 2015: HK$23.2 million) and HK$7.5 million (three months ended 31 March 2015: HK$29.8 million) were attributable to the SIM cards manufacturing business and the module packaging and testing service business respectively.

As disclosed in the 2015 annual report of the Company, the management is in the process of consolidating the resources of SIM card business segment by closing down the loss-making BJ SIM card plant and relocating the machineries to Shenzhen to better serve the global SIM card market. Also, the existing plant in Shenzhen that is currently serving the overseas market has been running at full capacity and is no longer able to meet the expected increasing orders from the overseas customers. Management is therefore relocating the existing Shenzhen plant to a larger plant in the periphery area of Shenzhen city, and consolidating the Beijing plant capacity there as well for centralized management. The management expects that the whole relocating process will be completed in the third quarter and during this transitional period, the closing down of the loss-making BJ SIM card plant that will inevitably lead to a significant drop in the segment revenue year-on-year basis.

As disclosed in the annual report 2015 of the Company, the PRC module packaging and testing service business is suffering from prolonged weak demand from the leading telecommunication market customers which led to low utilization rates in the Beijing plant since 2015Q2. To cope with this adverse situation, we began expanding our customer base to serve more international customers since mid of last year. Having undergone the necessary qualification process with certain new customers, their corresponding orders have begun to come in by early 2016. As of March 2016, Beijing module packaging and testing service plant was operating at near full capacity and we expect that commercial production will ramp up in the coming months which should boost up the revenue again.

Revenue generated from the provision of management and financial consultancy services amounted to HK$1.48 million during the period under review (three months ended 31 March 2015: HK$1.46 million).

Cost of Sales and Gross Profit

During the period under review, cost of sales increased by HK$396.0 million, or 139.6%, from HK$283.6 million for the corresponding period of 2015, to HK$679.6 million. The increase in cost of sales was largely attributable to the increase in cost of sales of HK$423.3 million in relation to increased sales of petro-chemical products but partly offset by the drop in cost of sales of HK$27.2 million in relation to the drop in sales of smartcard business.

As a result, gross profit dropped by HK$4.1 million or 50.2%, from the corresponding period in last year of HK$8.2 million, to HK$4.1 million.

Other Income

Other revenue of HK$9.0 million (three months ended 31 March 2015: HK$10.8 million) was mainly comprised of interest income arising from the amount due from a joint venture.

Other Gains or Losses, net

During the period under review, other gains amounted to HK$0.83 million (three months ended 31 March 2015: loss of HK$2.14 million) which was represented by the exchange gains arising from foreign currency-based transactions.

Selling and Distribution Costs

During the period under review, selling and distribution costs increased by HK$0.21 million or 11.3%, from HK$1.92 million in the corresponding period in 2015 to HK$2.13 million, and was mainly attributable to the increase in the transportation costs in relation to the increased sales of petro-chemical products of about HK$0.54 million but offset by the drop in various selling expenses due to the closing down of the BJ SIM card plant.

Administrative Expenses

Administrative expenses recorded an increase of HK$0.4 million or 5.2%, from HK$8.1 million in the corresponding period in 2015, to HK$8.5 million. The increase was primarily attributable to the increase in various costs in relation to the sales of petro-chemical products segment.

Finance Costs

During the period under review, the Group's finance costs amounted to HK$0.23 million (three months ended 31 March 2015: HK$0.53 million), the drop was due largely to the drop in average borrowings during the period under review.

Income Tax Expense

During the period under review, the income tax expense of the Group amounted to HK$0.24 million (three months ended 31 March 2015: HK$0.50 million).

As a result of the foregoing, profit for the three months ended 31 March 2016 amounted to HK$2.9 million, representing an decrease of about HK$3.0 million as compared to about HK$5.9 million for the corresponding period in 2015.

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 borrowings. As at 31 March 2016, the Group had cash and bank balances of HK$15.7 million (31 December 2015: HK$20.2 million), secured bank loans and other borrowings of HK$25.7 million (31 December 2015: HK$30.4 million).

As at 31 March 2016, the Group had current assets of HK$517.6 million (31 December 2015: HK$367.6 million) and current liabilities of HK$228.9 million (31 December 2015: HK$83.3 million). The current ratio, expressed as current assets over current liabilities, was maintained at a level of about 2.3 (31 December 2015: 4.4).

GEARING RATIO

The gearing ratio of the Group, expressed as a percentage of total borrowings to total assets of the Group, was about 4.6% as at 31 March 2016 (31 December 2015: 7.5%).

FURTHER EXPLANATIONS IN RELATION TO THE "EXCEPT FOR" QUALIFIED OPINION ISSUED BY AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

We refer to the qualified audit opinion issued by auditors for the year ended 31 December 2015 (the "2015 Opinion") and the statements in relation to actions taken or to be taken to address the qualified opinion issued by auditors for the financial year ended 31 December 2014 (the "2014 Actions") as disclosed in the first quarterly report of the Company for the three months ended 31 March 2015:

(a) The status of the 2014 Actions and the circumstances leading to the 2015 Opinion in light of the 2014 Actions

We undertook extensive negotiations last year with two potential investors for the possible cooperation of developing the end-of-life vehicle ("ELV") recycling business in respect of Hota Auto Recycling Corp. ("HARC"), which both ended up unsuccessfully. Besides, the Company also did not raise funds for resuming the ELV recycling business during the financial year of 2015. The main reason is that the global scrap metal, steel and iron prices all slumped by nearly half throughout the year of 2015 which made it difficult (if not impossible) for the Company to conclude a deal with terms that are favorable and in the best interests of the Company and the shareholders. The steep dive in commodity prices throughout 2015 took even industry experts by surprise, and with no clear turn-around in the foreseeable future, and even though there will be a shortfall in funds should the Company decide to resume HARC's operations, it did not make commercial sense for the Company (and the substantial shareholder who is willing to provide full financial support on the portion of the shortfall in case the Company failed to raise sufficient funds in the capital market) to raise funds in the capital market or getting financial support from the substantial shareholder and then to make significant investment for resuming HARC's operations while the market price of scrap metals was in freefall.

(b) The actions taken or to be taken to address the 2015 Opinion

In order to re-vitalize the assets of HARC (which comprise mainly of the land, the building and the machineries), the Company is not only soliciting potential strategic partners in the ELV recycling field, but also other potential business partners outside of the ELV recycling business but which may be interested in utilizing HARC's assets for their business development. Actually, by end of 2015, the Company signed a framework agreement with a local enterprise in Zhangjiagang for such potential land leasing cooperation (though due diligence work is still underway and the form of cooperation is yet to be confirmed and finalized). In addition, the Company's back-up plan of resuming the ELV recycling business by raising funds in the capital market has never been abandoned (same as disclosed in 2014 Actions, the substantial shareholder expresses his willingness to provide full financial support on the portion of the shortfall in case the Company fails to raise sufficient funds in the capital market). To this end, the scrap metals has shown some price recovery since late 2015 and early 2016 that makes the industry outlook slightly more promising. Recently, the Company has also been negotiating with certain institutional investors for potential investment/co-operation. The Board and management continues to diligently pursue all options with the above-mentioned potential co-operation partners, and places the highest priority on resolving the Hota investment as soon as possible and to the best possible advantage of all shareholders. Further announcements will be made by the Company as and when appropriate in compliance with the GEM Listing Rules. It is believed that any resolution of the HARC and Hota situation would involve enough financing and working capital from banks and/or other financial institutions to repay the outstanding debts due to the Company.

(c) The reasons for the increase in balance due from Hota Group in 2015

The increase represented the accrued interests due from the Hota Group for the year of 2015. Based on the situation described above and a substantial written off that the Company had made in 2014, it is believed that the amount stated is a fair accrued compensation for the credit which has been extended by the Company and the efforts made by the Board and management, and is in the best interest of the Company and the shareholders as a whole.

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

As at 31 March 2016, 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 *(Note 1)*	Beneficial owner	Long	1,000,000	5,000,000	0.16
Chang Wei Wen	Beneficial owner	Long	5,250,000	–	0.14
Wang Jia Hua	Beneficial owner	Long	5,000,000	–	0.13
Yang Meng Hsiu	Beneficial owner	Long	43,000,000	–	1.14

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 2016, 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 2016, 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	510,825,125	13.57
Best Heaven Limited *(Note 1)*	Beneficial	Long	315,865,000	8.39
Mr. Tsai Chi Yuan *(Note 1)*	Interests in controlled company	Long	826,690,125	21.96

Notes:

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 2016, 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 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 under the New Share Option Scheme during the period were as follows:

Name of participant	At 1 January 2016	Granted/ Exercised/ Cancelled/ Lapsed during the period	At 31 March 2016	Date of grant	Exercisable period	Exercise price
						HK$
Executive Director						
Lily Wu	5,000,000	–	5,000,000	17 November 2008	17 November 2008 to 16 November 2018	0.186

As at 31 March 2016, the remaining life of the New Share Option Scheme was about 2.7 years.

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 ended 31 March 2016 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 2016, the Group compiled 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 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 2016.

COMPETING INTERESTS

As at 31 March 2016, none of the directors or the management shareholders or any of its respective associates (as defined under the GEM Listing Rules) of the Company had any interest in a business that competed or might compete with the business of the Group directly or indirectly.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities during the three months ended 31 March 2016.

By order of the Board
Lily Wu
Chairman

Hong Kong, 11 May 2016