



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 2017**

**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 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**

- Unaudited revenue for the three months ended 31 March 2017 amounted to HK\$196,735,000, representing a decrease of 71.2% as compared to the corresponding period in 2016 of HK\$683,725,000.
- The Group recorded an unaudited loss attributable to owners of the Company of HK\$2,433,000 for the three months ended 31 March 2017.
- The Board does not recommend any payment of an interim dividend for the three months ended 31 March 2017.

## 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 2017 together with the comparative figures for the corresponding period in 2016 as follows:

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

		<b>Unaudited</b>	
		<b>Three months ended</b>	
		<b>31 March</b>	
	<i>Notes</i>	<b>2017</b>	2016
		<b>HK\$</b>	<b>HK\$</b>
<b>Revenue</b>	2	<b>196,734,536</b>	683,724,896
Cost of sales		<u>(192,163,669)</u>	<u>(679,623,404)</u>
Gross profit		<b>4,570,867</b>	4,101,492
Other income	3	<b>51,795</b>	9,045,072
Other gains, net	4	<b>66,906</b>	827,328
Selling and distribution costs		<b>(948,623)</b>	(2,134,565)
Administrative expenses		<b>(5,747,238)</b>	(8,492,240)
Finance costs		<u>(61,842)</u>	<u>(231,088)</u>
(Loss)/Profit before income tax		<b>(2,068,135)</b>	3,115,999
Income tax expense	5	<u>(374,865)</u>	<u>(240,705)</u>
(Loss)/Profit for the period		<u><b>(2,443,000)</b></u>	<u>2,875,294</u>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange gain on translation of financial statements of foreign operations		<u>1,207,517</u>	<u>598,856</u>
Other comprehensive income for the period		<u>1,207,517</u>	<u>598,856</u>
<b>Total comprehensive income for the period</b>		<u><b>(1,235,483)</b></u>	<u>3,474,150</u>

		<b>Unaudited</b>	
		<b>Three months ended</b>	
		<b>31 March</b>	
		<b>2017</b>	<b>2016</b>
	<i>Notes</i>	<i>HK\$</i>	<i>HK\$</i>
<b>(Loss)/Profit for the period attributable to:</b>			
Owners of the Company		<b>(2,432,872)</b>	2,721,705
Non-controlling interests		<b>(10,128)</b>	153,589
		<u><b>(2,443,000)</b></u>	<u>2,875,294</u>
<b>Total comprehensive income for the period</b>			
<b>attributable to:</b>			
Owners of the Company		<b>(1,494,259)</b>	3,176,961
Non-controlling interests		<b>258,776</b>	297,189
		<u><b>(1,235,483)</b></u>	<u>3,474,150</u>
		<i>HK cents</i>	<i>HK cents</i>
<b>(Loss)/Earnings per share</b>			
– Basic and diluted	7	<u><b>(0.647)*</b></u>	<u>0.723*</u>

\* Adjusted for share consolidation with effect from 19 January 2017.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the three months ended 31 March 2017*

	Unaudited										
	Share capital <i>HK\$</i>	Share premium* <i>HK\$</i>	Contributed surplus* <i>HK\$</i>	Share option reserve* <i>HK\$</i>	Other reserves* <i>HK\$</i>	Translation reserve* <i>HK\$</i>	Available- for-sale financial assets revaluation reserve* <i>HK\$</i>	Accumulated losses* <i>HK\$</i>	Total reserve <i>HK\$</i>	Non- controlling interests <i>HK\$</i>	Total <i>HK\$</i>
1 January 2016	75,283,900	363,524,409	13,985,669	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 financial statements 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
<b>At 31 March 2016</b>	<b><u>75,283,900</u></b>	<b><u>363,524,409</u></b>	<b><u>13,985,669</u></b>	<b><u>1,360,008</u></b>	<b><u>7</u></b>	<b><u>9,289,730</u></b>	<b><u>(11,739,442)</u></b>	<b><u>(152,836,270)</u></b>	<b><u>223,584,111</u></b>	<b><u>25,753,960</u></b>	<b><u>324,621,971</u></b>
1 January 2017	75,258,500	363,367,716	13,985,669	1,360,008	7	2,150,237	-	(389,559,509)	(8,695,872)	24,046,373	90,609,001
Loss for the period	-	-	-	-	-	-	-	(2,432,872)	(2,432,872)	(10,128)	(2,443,000)
Other comprehensive income											
– Translation of financial statements of foreign operations	-	-	-	-	-	938,613	-	-	938,613	268,904	1,207,517
Total comprehensive income for the period	-	-	-	-	-	938,613	-	(2,432,872)	(1,494,259)	258,776	(1,235,483)
<b>At 31 March 2017</b>	<b><u>75,258,500</u></b>	<b><u>363,367,716</u></b>	<b><u>13,985,669</u></b>	<b><u>1,360,008</u></b>	<b><u>7</u></b>	<b><u>3,088,850</u></b>	<b><u>-</u></b>	<b><u>(391,992,381)</u></b>	<b><u>(10,190,131)</u></b>	<b><u>24,305,149</u></b>	<b><u>89,373,518</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 2017 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 2016.

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 2017, the accounting policies applied are consistent with those of the audited annual financial statements of the Group for the year ended 31 December 2016, 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 2016.

### 2. REVENUE

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

	Unaudited Three months ended 31 March	
	2017	2016
	HK\$	HK\$
Sales of smart cards	9,918,240	20,247,974
Sales of smart card application systems	18,150	11,500
Financial and management consultancy services	–	1,476,473
Sales of petro-chemical products	186,798,146	661,988,949
	<u>196,734,536</u>	<u>683,724,896</u>

3. OTHER INCOME

	<b>Unaudited</b>	
	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2017</b>	2016
	<b>HK\$</b>	<b>HK\$</b>
Interest income from amount due from a joint venture	–	9,011,294
Bank interest income	<b>535</b>	6,381
Sundry income	<b>51,260</b>	27,397
	<u>51,795</u>	<u>9,045,072</u>

4. OTHER GAINS, NET

	<b>Unaudited</b>	
	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2017</b>	2016
	<b>HK\$</b>	<b>HK\$</b>
Exchange (losses)/gains, net	<b>(157,844)</b>	827,328
Gain on disposal of property, plant and equipment	<b>224,750</b>	–
	<u>66,906</u>	<u>827,328</u>

5. INCOME TAX EXPENSE

	<b>Unaudited</b>	
	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2017</b>	2016
	<b>HK\$</b>	<b>HK\$</b>
Current tax		
Hong Kong Profits Tax:		
Current period	<b>369,000</b>	58,000
	<b>369,000</b>	58,000
PRC Enterprise Income Tax:		
Current period	<b>5,865</b>	182,705
Total income tax expense	<u><b>374,865</b></u>	<u>240,705</u>

Hong Kong Profits Tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits for the period and prior period.

The income tax provision of the Group in respect of its operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the period and prior period based on the existing legislation, interpretations and practices in respect thereof. The applicable income tax rate is 25% for the three months ended 31 March 2017 (three months ended 31 March 2016: 25%).

**6. DIVIDENDS**

The Board does not recommend any payment of an interim dividend for the three months ended 31 March 2017 (three months ended 31 March 2016: nil).

**7. (LOSS)/EARNINGS PER SHARE**

**(a) Basic (loss)/earnings per share**

Basic (loss)/earnings per share for the three months ended 31 March 2017 is calculated by dividing the unaudited loss attributable to owners of the Company of HK\$2,432,872 (three months ended 31 March 2016: profit of HK\$2,721,705) by the weighted average number of ordinary shares of 376,292,500 shares (three months ended 31 March 2016: 376,419,500 shares) in issue during the period.

The share consolidation pursuant to the shareholders resolutions dated 18 January 2017 is adjusted in the above weighted average number of ordinary shares in issue as if the share consolidation had occurred at 1 January 2016, the beginning of the earliest period reported. For more details, please refer to the Company's announcement, circular as well as the poll results of the EGM announcement which were published on 12 December 2016, 21 December 2016 and 18 January 2017, respectively.

**(b) Diluted (loss)/earnings per share**

No adjustment has been made to basic (loss)/earnings per share as the outstanding share options had anti-dilutive effect on the basic (loss)/earnings per share for three months ended 31 March 2017 and 2016.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Operations and Financial Review

#### *Revenue*

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

#### *Sales of petro-chemical products*

During the Reporting Period, sales of petro-chemical products conducted by Shanghai Phoenitron and its subsidiary continued to be the key revenue generator of the Group. However, due to the volatile crude oil price in late February and March, the Group adopted a conservative approach which includes the performance of some contracts was delayed to next quarter and avoided entering into some short-term, potentially loss-making contracts. As a result, revenue recorded during the reporting period amounted to approximately HK\$186.8 million only, representing a decrease of approximately HK\$475.2 million, or 71.8%, as compared to the corresponding period in 2016 of approximately HK\$662.0 million.

#### *Contract manufacturing and sales of smart cards*

During the Reporting Period, revenue derived from contract manufacturing and sales of smart cards composed of the SIM cards manufacturing business only, as opposed to the revenue for corresponding period in last year which consisted of the revenue derived from both (i) the SIM card manufacturing business; and (ii) the module packaging and testing service business that had been disposed of by end of 2016 (revenue for the three months ended 31 March 2016: about HK\$7.5 million).

During the Reporting Period, the Group's revenue generated from the SIM card manufacturing business amounted to approximately HK\$9.9 million, down by approximately HK\$2.8 million or 22.0% as compared to the corresponding period in 2016 of approximately HK\$12.7 million. The drop in revenue of the SIM cards manufacturing business was mainly caused by the relocation of our Shenzhen plant that took place by end of 2016 and early January 2017, as customers tended to either place their orders before the relocation or wait until afterwards when the new plant has resumed normal operations.

Despite of the above, net profit generated by overseas SIM card segment increased by about HK\$0.7 million on year-on-year basis due to the provision of higher-value-added services.

### ***Provision of financial and management consultancy services***

No revenue was generated from the provision of financial and management consultancy services during the Reporting Period (three months ended 31 March 2016: approximately HK\$1.48 million).

### ***Cost of Sales (“COS”) and Gross Profit***

During the Reporting Period, the Group’s COS comprised of the COS from each of the sales of petro-chemical products business segment and the contract manufacturing and sales of smart cards business segment.

### ***Sales of petro-chemical products***

During the Reporting Period, COS in relation to the sales of petro-chemical products amounted to approximately HK\$186.5 million, representing a decrease of approximately HK\$473.6 million, or 71.7%, as compared to the corresponding period in 2016 of approximately HK\$660.1 million. Gross profit dropped from approximately HK\$1.9 million for the corresponding period in 2016 to approximately HK\$0.3 million due to the reduced sales and also the fluctuations in the international crude oil price that reduced the profit margin during the Reporting Period.

### ***Contract manufacturing and sales of smart cards***

Similar to the revenue situation, COS incurred for the contract manufacturing and sales of smart cards during the Reporting Period composed only of the SIM cards manufacturing business, as opposed to the COS for corresponding period in last year which consisted of the COS incurred in relation to (i) the SIM cards manufacturing business; and (ii) the module packaging and testing services business that had been disposed of by end of 2016 (COS for the three months ended 31 March 2016: about HK\$9.6 million).

During the Reporting Period, cost of sales incurred for the SIM card manufacturing business amounted to approximately HK\$5.7 million, down by approximately HK\$4.3 million or 43.0% as compared to the corresponding period in 2016 of approximately HK\$10.0 million. The significant drop in COS was due primarily to better product mix and the provision of higher-value-added services as compared to the corresponding period in last year. As a result, gross profit generated from the SIM card manufacturing business segment amounted to approximately HK\$4.2 million, representing an increase of approximately HK\$1.5 million, or 55.6%, as compared to the corresponding period in 2016 of approximately HK\$2.7 million.

Due to the above-mentioned, gross profit of the Group increased by approximately HK\$0.47 million or 11.5%, from the corresponding period in 2016 of approximately HK\$4.10 million, to approximately HK\$4.57 million.

### ***Other Income***

Other income of approximately HK\$0.05 million (three months ended 31 March 2016: approximately HK\$9.05 million) was mainly comprised of sundry income. The significant drop in other income during the Reporting Period was wholly attributable to the fact that the Company has ceased to accrue interest income chargeable to Hota Group since the third quarter of 2016 as the whole amount due by Hota Group has been fully impaired.

### ***Other Gains, Net***

During the Reporting Period, other gains amounted to approximately HK\$0.07 million (three months ended 31 March 2016: approximately HK\$0.83 million) which was attributable to a gain on disposal of certain fixed assets in relation to the Shenzhen SIM card plant of approximately HK\$0.23 million but partially offset by the exchange losses arising from foreign currency-based transactions of approximately HK\$0.16 million.

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

During the Reporting Period, selling and distribution costs amounted to approximately HK\$0.95 million, representing a drop of approximately HK\$1.18 million, or 55.4%, as compared to the corresponding period in 2016 of approximately HK\$2.13 million. The decrease was mainly due to the decrease in transportation costs and freight charge by a total of approximately HK\$0.80 million that were attributable to the dropped in sales of each of the petro-chemical products segment and the SIM card segment, and also partially due the drop in various selling expenses of a total of about HK\$0.38 million resulted from the disposal of Beijing module packaging and testing service plant by end of 2016.

### ***Administrative Expenses***

Administrative expenses recorded a decrease of approximately HK\$2.74 million, or 32.3% during the Reporting Period, from approximately HK\$8.49 million for the corresponding period in 2016, to approximately HK\$5.75 million. The decrease was largely due to the following factors: (i) the drop in various general administrative expenses of a total of approximately HK\$2.07 million resulted from the closing down of the Beijing SIM card plant since early 2016 and the disposal of Beijing module packaging and testing service plant by end of 2016; (ii) decrease in legal and professional fee of approximately HK\$0.23 million for other group companies; and (iii) the decreases in various administrative expenses of a total of approximately HK\$0.27 million that were attributable to the drop in sales of each of the petrochemical products segment and the overseas SIM card segment.

### *Finance Costs*

During the Reporting Period, the Group's finance costs amounted to approximately HK\$0.06 million (three months ended 31 March 2016: approximately HK\$0.23 million). The drop was due to the drop in average borrowings level for the Group as compared to the corresponding period in 2016 as a direct result of the disposal of Beijing module packaging and testing service plant by end of 2016.

### *Income Tax Expense*

During the period under review, the income tax expense of the Group amounted to approximately HK\$0.37 million (three months ended 31 March 2016: approximately HK\$0.24 million) and was mainly derived from profit from overseas SIM card segment.

As a result of the foregoing, loss attributable to owners of the Company during the Reporting Period amounted to approximately HK\$2.43 million (three months ended 31 March 2016: profit of approximately HK\$2.72 million).

## **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 loans and other borrowings. As at 31 March 2017, the Group had cash and bank balances and pledged bank deposits of HK\$4.1 million (31 December 2016: HK\$4.2 million), secured bank loans and other borrowings of HK\$16.2 million (31 December 2016: HK\$12.5 million).

As at 31 March 2017, the Group had current assets of HK\$339.0 million (31 December 2016: HK\$129.2 million) and current liabilities of HK\$261.7 million (31 December 2016: HK\$49.6 million). The current ratio, expressed as current assets over current liabilities, was 1.3 (31 December 2016: 2.6).

## **GEARING RATIO**

The gearing ratio of the Group, expressed as a percentage of total borrowings to total assets of the Group, was 4.6% as at 31 March 2017 (31 December 2016: 8.9%).

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

As at 31 March 2017, 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	100,000	500,000	0.16
Chang Wei Wen	Beneficial owner	Long	525,000	–	0.14
Yang Meng Hsiu	Beneficial owner	Long	4,300,000	–	1.14

*Note:*

1. These include 500,000 share options conferring rights to subscribe for 500,000 shares.

Save as disclosed above, as at 31 March 2017, 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 2017, 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:

<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	51,927,512	13.80
Best Heaven Limited <i>(Note 1)</i>	Beneficial	Long	31,586,500	8.39
Mr. Tsai Chi Yuan <i>(Note 1)</i>	Interests in controlled company	Long	83,514,012	22.19

*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 2017, 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 2017	Granted/ Exercised/ Cancelled/ Lapsed during the period	At 31 March 2017	Date of grant	Exercisable period	Exercise price <i>HK\$</i>
<b>Executive Director</b>						
Lily Wu	500,000	–	500,000	17 November 2008	17 November 2008 to 16 November 2018	1.86

As at 31 March 2017, the remaining life of the New Share Option Scheme was about 1.7 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 2017 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 2017, the Group complied with the code provisions in the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 15 of the GEM Listing Rules, except for the code provision A2.1 stipulated in the following paragraphs.

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

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

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

Thus, the Board considers that 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 2017.

#### **COMPETING INTERESTS**

As at 31 March 2017, 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**

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 2017.

By order of the Board  
**Lily Wu**  
*Chairman*

Hong Kong, 10 May 2017