



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 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 “Director(s)”) 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**

- The Group recorded an unaudited turnover of HK\$277,275,000 for the nine months ended 30 September 2017, representing an decrease of 86.1% as compared with that of the corresponding period in 2016.
- The unaudited loss attributable to the owners of the Company for the nine months ended 30 September 2017 was HK\$11,414,000.
- The Board does not recommend any payment of an interim dividend for the nine months ended 30 September 2017.

## UNAUDITED THIRD 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 and the nine months ended 30 September 2017 together with the comparative figures for the corresponding periods in 2016 as follows:

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

	<i>Notes</i>	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
		2017 HK\$	2016 HK\$	2017 HK\$	2016 HK\$
<b>Revenue</b>	2	<b>13,554,440</b>	594,032,906	<b>277,274,994</b>	1,995,969,758
Cost of sales		<u>(13,148,828)</u>	<u>(592,965,052)</u>	<u>(267,240,011)</u>	<u>(1,983,993,799)</u>
Gross profit		<b>405,612</b>	1,067,854	<b>10,034,983</b>	11,975,959
Other income	3	<b>47,379</b>	664,221	<b>148,483</b>	18,699,516
Other gains/(losses), net	4	<b>80,307</b>	2,520,707	<b>(194,382)</b>	940,674
Selling and distribution costs		<b>(1,084,860)</b>	(1,572,503)	<b>(3,198,299)</b>	(5,851,690)
Administrative expenses		<b>(5,538,128)</b>	(7,353,565)	<b>(17,728,241)</b>	(24,847,428)
Impairment loss on available-for-sale financial assets		-	(11,739,442)	-	(11,739,442)
Impairment loss on amount due from a joint venture		-	(222,005,577)	-	(222,005,577)
Finance costs	5	<u>(105,990)</u>	<u>(109,871)</u>	<u>(579,738)</u>	<u>(546,020)</u>
<b>Loss before income tax</b>		<b>(6,195,680)</b>	(238,528,176)	<b>(11,517,194)</b>	(233,374,008)
Income tax expense	6	<u>336,000</u>	<u>(537,521)</u>	<u>(12,639)</u>	<u>(1,023,113)</u>
<b>Loss for the period</b>		<u><b>(5,859,680)</b></u>	<u>(239,065,697)</u>	<u><b>(11,529,833)</b></u>	<u>(234,397,121)</u>

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2017	2016	2017	2016
<i>Notes</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
<b>Other comprehensive income:</b>				
<i>Item that may be reclassified subsequently to profit or loss:</i>				
Exchange gain/(loss) on translation of financial statements of foreign operations	437,586	(1,209,119)	3,350,979	(2,487,832)
<i>Item that was reclassified to profit or loss:</i>				
Reclassification adjustment of available-for-sale financial assets revaluation reserve upon impairment of assets	-	11,739,442	-	11,739,442
Other comprehensive income for the period	<u>437,586</u>	<u>10,530,323</u>	<u>3,350,979</u>	<u>9,251,610</u>
<b>Total comprehensive income for the period</b>	<b><u>(5,422,094)</u></b>	<b><u>(228,535,374)</u></b>	<b><u>(8,178,854)</u></b>	<b><u>(225,145,511)</u></b>
<b>(Loss)/profit attributable to:</b>				
Equity holders of the Company	(5,707,360)	(239,264,609)	(11,414,044)	(234,951,153)
Non-controlling interests	<u>(152,320)</u>	<u>198,912</u>	<u>(115,789)</u>	<u>554,032</u>
	<b><u>(5,859,680)</u></b>	<b><u>(239,065,697)</u></b>	<b><u>(11,529,833)</u></b>	<b><u>(234,397,121)</u></b>
<b>Total comprehensive income attributable to:</b>				
Equity holders of the Company	(5,415,454)	(228,413,484)	(8,790,705)	(225,080,704)
Non-controlling interests	<u>(6,640)</u>	<u>(121,890)</u>	<u>611,851</u>	<u>(64,807)</u>
	<b><u>(5,422,094)</u></b>	<b><u>(228,535,374)</u></b>	<b><u>(8,178,854)</u></b>	<b><u>(225,145,511)</u></b>
	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
<b>Loss per share</b>	8			
– Basic	<b><u>(1.265)*</u></b>	<b><u>(63.585)*</u></b>	<b><u>(2.793)*</u></b>	<b><u>(62.431)*</u></b>
– Diluted	<b><u>(1.265)*</u></b>	<b><u>(63.585)*</u></b>	<b><u>(2.793)*</u></b>	<b><u>(62.431)*</u></b>

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	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 Reserves <i>HK\$</i>	Non- controlling interests <i>HK\$</i>	Total <i>HK\$</i>
At 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
Repurchase of shares	(25,400)	(156,693)	-	-	-	-	-	-	(156,693)	-	(182,093)
<b>Transactions with owners</b>	<b>(25,400)</b>	<b>(156,693)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(156,693)</b>	<b>-</b>	<b>(182,093)</b>
Loss for the period	-	-	-	-	-	-	-	(234,951,153)	(234,951,153)	554,032	(234,397,121)
Other comprehensive income											
– Translation of foreign operations	-	-	-	-	-	(1,868,993)	-	-	(1,868,993)	(618,839)	(2,487,832)
– Reclassification adjustment of available-for-sale financial assets revaluation reserve upon impairment of assets	-	-	-	-	-	-	11,739,442	-	11,739,442	-	11,739,442
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,868,993)</b>	<b>11,739,442</b>	<b>(234,951,153)</b>	<b>(225,080,704)</b>	<b>(64,807)</b>	<b>(225,145,511)</b>
<b>At 30 September 2016</b>	<b>75,258,500</b>	<b>363,367,716</b>	<b>13,985,669</b>	<b>1,360,008</b>	<b>7</b>	<b>6,965,481</b>	<b>-</b>	<b>(390,509,128)</b>	<b>(4,830,247)</b>	<b>25,391,964</b>	<b>95,820,217</b>
At 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
Issue of share upon share subscription	15,000,000	-	-	-	-	-	-	-	-	-	15,000,000
Share issue expenses	-	(25,000)	-	-	-	-	-	-	(25,000)	-	(25,000)
<b>Transactions with owners</b>	<b>15,000,000</b>	<b>(25,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(25,000)</b>	<b>-</b>	<b>14,975,000</b>
Loss for the period	-	-	-	-	-	-	-	(11,414,044)	(11,414,044)	(115,789)	(11,529,833)
Other comprehensive income											
– Translation of foreign operations	-	-	-	-	-	2,623,339	-	-	2,623,339	727,640	3,350,979
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,623,339</b>	<b>-</b>	<b>(11,414,044)</b>	<b>(8,790,705)</b>	<b>611,851</b>	<b>(8,178,854)</b>
<b>At 30 September 2017</b>	<b>90,258,500</b>	<b>363,342,716</b>	<b>13,985,669</b>	<b>1,360,008</b>	<b>7</b>	<b>4,773,576</b>	<b>-</b>	<b>(400,973,553)</b>	<b>(17,511,577)</b>	<b>24,658,224</b>	<b>97,405,147</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 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 includes 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 30 September		Unaudited Nine months ended 30 September	
	2017 HK\$	2016 HK\$	2017 HK\$	2016 HK\$
Sales of smart cards	12,100,132	20,843,287	36,817,589	66,875,139
Sales of smart card application systems	20,200	8,220	48,350	23,720
Financial and management consultancy services	–	–	–	2,941,130
Sales of petro-chemical products	1,434,108	573,181,399	240,409,055	1,926,129,769
	<u>13,554,440</u>	<u>594,032,906</u>	<u>277,274,994</u>	<u>1,995,969,758</u>

3. OTHER INCOME

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2017 HK\$	2016 HK\$	2017 HK\$	2016 HK\$
Interest income from amount from a joint venture	–	–	–	17,992,336
Bank interest income	417	534	1,638	15,467
Sundry income	46,962	663,687	146,845	691,713
	<u>47,379</u>	<u>664,221</u>	<u>148,483</u>	<u>18,699,516</u>

4. OTHER GAINS/(LOSSES), NET

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2017 HK\$	2016 HK\$	2017 HK\$	2016 HK\$
Gain on disposal of property, plant and equipment	–	2,241,729	224,750	2,241,729
Exchange gain/(loss), net	80,307	278,978	(419,132)	(1,301,055)
	<u>80,307</u>	<u>2,520,707</u>	<u>(194,382)</u>	<u>940,674</u>

5. FINANCE COSTS

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2017 HK\$	2016 HK\$	2017 HK\$	2016 HK\$
Interest on bank loans wholly repayable within five years	60,251	84,037	131,855	426,199
Interest charges on other borrowings	45,739	25,834	447,883	119,821
	<u>105,990</u>	<u>109,871</u>	<u>579,738</u>	<u>546,020</u>

## 6. INCOME TAX EXPENSE

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2017 HK\$	2016 HK\$	2017 HK\$	2016 HK\$
<b>Current tax</b>				
– Hong Kong Profits Tax				
Current year	(336,000)	272,000	4,000	296,000
– PRC Enterprise Income Tax				
Current year	–	265,521	8,639	727,113
Total income tax expense	<u>(336,000)</u>	<u>537,521</u>	<u>12,639</u>	<u>1,023,113</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 the 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 nine months ended 30 September 2017 (nine months ended 30 September 2016: 25%)

## 7. DIVIDEND

The Board does not recommend any payment of an interim dividend for the nine months ended 30 September 2017 (nine months ended 30 September 2016: nil).

## 8. LOSS PER SHARE

### (a) Loss per share

Basic loss per share for the three months and the nine months ended 30 September 2017 is calculated by dividing the unaudited loss attributable to the equity holders of the Company of HK\$5,707,360 and HK\$11,414,044 respectively (three months and nine months ended 30 September 2016: HK\$239,264,609 and HK\$234,951,153 respectively) by the weighted average number of ordinary shares of 451,292,500 and 408,710,082 ordinary shares during the periods (three months and nine months ended 30 September 2016: 376,292,500 and 376,334,832 ordinary shares respectively).

### (b) Diluted loss per share

No adjustment has been made to basic loss per share as the outstanding share options had anti-dilutive effect on the basic loss per share for the three months ended and nine months ended 30 September 2017 and 2016.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Operation 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, Shanghai Phoenitron continued to conduct petro-chemical products sales, however, due to the volatile and falling crude oil price, the Group has adopted a conservative approach which includes delaying the execution of some contracts to next quarter (certain contracts have been executed in the fourth quarter) and avoid entering into some short-term, potentially loss-making contracts. As a result, revenue recorded during the reporting period amounted to approximately HK\$240.4 million only, representing a decrease of approximately HK\$1,685.7 million, or 87.5%, as compared to the corresponding period in 2016 of approximately HK\$1,926.1 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 the end of 2016 (revenue for the nine months ended 30 September 2016: about HK\$21.1 million).

During the Reporting Period, the Group's revenue generated from the SIM card manufacturing business amounted to approximately HK\$36.8 million, down by approximately HK\$9.0 million or 19.6% as compared to the corresponding period in 2016 of approximately HK\$45.8 million. The drop in revenue of the SIM cards manufacturing business was partly 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 had resumed normal operations.

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

No revenue was generated from the provision of financial and management consultancy services during the Reporting Period (nine months ended 30 September 2016: approximately HK\$2.94 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\$240.0 million, representing a decrease of approximately HK\$1,681.6 million, or 87.5%, as compared to the corresponding period in 2016 of approximately HK\$1,921.6 million. Gross profit dropped from approximately HK\$4.6 million for the corresponding period in 2016 to approximately HK\$0.4 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 nine months ended 30 September 2016: about HK\$29.7 million).

During the Reporting Period, cost of sales incurred for the SIM card manufacturing business amounted to approximately HK\$27.2 million, down by approximately HK\$5.5 million or 16.8% as compared to the corresponding period in 2016 of approximately HK\$32.7 million. The drop in COS was due primarily to drop in revenue 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\$9.6 million, representing a decrease of approximately HK\$3.5 million, or 26.7%, as compared to the corresponding period in 2016 of approximately HK\$13.1 million.

Due to the above-mentioned, gross profit of the Group dropped by approximately HK\$1.9 million or 16.0%, from the corresponding period in 2016 of approximately HK\$11.9 million, to approximately HK\$10.0 million.

### ***Other Income***

Other income of approximately HK\$0.1 million (nine months ended 30 September 2016: approximately HK\$18.7 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/(Losses), Net***

During the Reporting Period, other losses amounted to approximately HK\$0.2 million (nine months ended September 2016: gains of approximately HK\$0.9 million) which was attributable to the exchange losses arising from foreign currency-based transactions of approximately HK\$0.4 million but partially offset by a gain on disposal of certain fixed assets in relation to the Shenzhen SIM card plant of approximately HK\$0.2 million.

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

During the Reporting Period, selling and distribution costs amounted to approximately HK\$3.20 million, representing a drop of approximately HK\$2.65 million, or 45.3%, as compared to the corresponding period in 2016 of approximately HK\$5.85 million. The decrease was mainly due to the decrease in expenses like transportation costs, freight charge and staff costs by a total of approximately HK\$1.41 million that were attributable to the dropped in sales of each of the petro-chemical products segment and the overseas SIM card segment, and also partly due the drop in various selling expenses of a total of about HK\$1.24 million resulted from the disposal of Beijing module packaging and testing service plant by end of 2016 and the closure of the PRC SIM card plant.

### ***Administrative Expenses***

Administrative expenses recorded a decrease of approximately HK\$7.12 million, or 28.7% during the Reporting Period, from approximately HK\$24.85 million for the corresponding period in 2016, to approximately HK\$17.73 million. The decrease was largely due to the following factors: (i) the drop in various general administrative expenses of a total of approximately HK\$5.0 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\$1.40 million for other group companies; and (iii) the decreases in various administrative expenses of approximately HK\$0.51 million that were attributable to the drop in sales of the petro-chemical products segment.

### ***Finance Costs***

During the Reporting Period, the Group's finance costs amounted to approximately HK\$0.58 million (nine months ended 30 September 2016: approximately HK\$0.55 million).

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

During the period under review, the income tax expense of the Group amounted to approximately HK\$0.01 million (nine months ended 30 September 2016: approximately HK\$1.02 million).

As a result of the foregoing, loss attributable to owners of the Company during the Reporting Period amounted to approximately HK\$11.4 million (nine months ended 30 September 2016: loss of approximately HK\$235.0 million).

## **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 and other borrowings. As at 30 September 2017, the Group had cash and bank balances of HK\$5.5 million (31 December 2016: HK\$4.2 million) and secured bank loans and other borrowings of HK\$10.9 million (31 December 2016: HK\$12.5 million).

As at 30 September 2017, the Group had current assets of HK\$138.9 million (31 December 2016: HK\$129.2 million) and current liabilities of HK\$53.4 million (31 December 2016: HK\$49.6 million). The current ratio, expressed as current assets over current liabilities, was maintained at a level of 2.6 (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 7.2% as at 30 September 2017 (31 December 2016: 8.9%).

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

As at 30 September 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	0.13
Chang Wei Wen	Beneficial owner	Long	525,000	–	0.12
Yang Meng Hsiu	Beneficial owner	Long	4,300,000	–	0.95

*Note:*

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

Save as disclosed above, as at 30 September 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 30 September 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	11.51
Best Heaven Limited <i>(Note 1)</i>	Beneficial	Long	31,586,500	7.00
Mr. Tsai Chi Yuan <i>(Note 1)</i>	Interests in controlled company	Long	83,514,012	18.51

*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 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 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 30 September 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 30 September 2017, the remaining life of the New Share Option Scheme was about 1.2 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 and the nine months ended 30 September 2017 have been reviewed by the audit committee.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The corporate governance principles of the Company emphasize a quality Board, sound internal controls, transparency and accountability to all shareholders. Throughout the nine months ended 30 September 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 nine months ended 30 September 2017.

## **COMPETING INTERESTS**

As at 30 September 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 nine months ended 30 September 2017.

For and on behalf of the Board

**Lily Wu**  
*Chairman*

Hong Kong, 7 November 2017