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BRANDING CHINA

BRANDING CHINA GROUP LIMITED

(Incorporated in the Cayman Islands with Limited Liability)
Stock Code : 8219

2015 FIRST QUARTERLY REPORT

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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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FINANCIAL HIGHLIGHTS

During the period from 1 January 2015 to 31 March 2015 (the “Review Period”), the Group’s revenue increased by RMB2,142,160 to RMB62,473,220 as compared to the corresponding period of last year.

During the Review Period, the Group’s total gross profit decreased by RMB970,400 as compared to the corresponding period of last year. The gross profit margin during the Review Period decreased slightly to approximately 20.16% from approximately 22.48% for the corresponding period of last year.

Earnings per share of the Group for the Review Period were approximately RMB0.82 cents (corresponding period in 2014: RMB2.75 cents).

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

The unaudited condensed consolidated results of the Group during the Review Period, together with the comparative figures for the corresponding period in 2014 are as follows:

	Note	Unaudited For the three months ended 31 March	
		2015 RMB'000	2014 RMB'000
Revenue	5	62,473.22	60,331.06
Cost of sales		(49,881.19)	(46,768.63)
Gross profit		12,592.03	13,562.43
Other income and gains, net	6	1,479.33	2,864.09
Selling and distribution expenses		(1,465.82)	(1,698.83)
Administrative expenses		(8,623.89)	(5,366.35)
Finance costs		(282.60)	(306.29)
Share of profits of an associate		–	1.43
Profit before income tax expense		3,699.05	9,056.48
Income tax expense	7	(1,665.76)	(2,264.12)
Profit for the period		2,033.29	6,792.36
Other comprehensive income for the period:			
Exchange differences on translation of foreign operations		721.62	990.98
Total comprehensive income for the period		2,754.91	7,783.34
Earnings per share attributable to owners of the Company:			
Basic and diluted	10	RMB0.82 cents	RMB2.75 cents

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY



	Issued share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Capital surplus <i>RMB'000</i>	Exchange reserve <i>RMB'000</i>	Statutory reserve <i>RMB'000</i>	Retained profit <i>RMB'000</i>	Total equity <i>RMB'000</i>
As at 1 January 2014	1,996.74	203,009.10	2,000.00	(1,064.30)	4,073.95	144,565.77	354,581.26
Profit and total comprehensive income for the period	-	-	-	-	-	6,792.36	6,792.36
Exchange differences on translation of foreign operations	-	-	-	990.98	-	-	990.98
As at 31 March 2014	1,996.74	203,009.10	2,000.00	(73.32)	4,073.95	151,358.13	362,364.60
	Issued share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Capital surplus <i>RMB'000</i>	Exchange reserve <i>RMB'000</i>	Statutory reserve <i>RMB'000</i>	Retained profit <i>RMB'000</i>	Total equity <i>RMB'000</i>
As at 1 January 2015	1,996.74	203,009.09	2,000.00	(918.31)	6,656.40	183,006.57	395,750.49
Profit and total comprehensive income for the period	-	-	-	-	-	2,033.29	2,033.29
Exchange differences on translation of foreign operations	-	-	-	721.62	-	-	721.62
As at 31 March 2015	1,996.74	203,009.09	2,000.00	(196.69)	6,656.40	185,039.86	398,505.40

NOTES TO THE CONDENSED CONSOLIDATED FIRST QUARTERLY FINANCIAL STATEMENTS



1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 15 March 2011. Pursuant to the reorganisation (the “Reorganisation”) of the Group, the Company became the holding company of the Group on 26 August 2011. Details of the Reorganisation are set out in the prospectus of the Company dated 17 April 2012 (the “Prospectus”). The shares of the Company (the “Shares”) were listed on the Stock Exchange on 27 April 2012. During the Review Period, the Group was principally engaged in the provision of one-stop integrated marketing communications services, including advertising communications, public relations (“PR”) communications and event marketing, to its clients.

2. BASIS OF PRESENTATION AND PREPARATION

The condensed consolidated financial statements for the Review Period have been prepared in accordance with the applicable disclosure requirements set out in Chapter 18 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”), the International Financial Reporting Standards (“IFRSs”), which comprise standards and interpretations approved by the International Accounting Standards Board (the “IASB”), the International Accounting Standards and Standing Interpretations Committee’s interpretations approved by the International Accounting Standards Committee, and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. The condensed consolidated financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except otherwise indicated.

The condensed consolidated financial statements are unaudited but have been reviewed by the audit committee of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and method of computation used in the preparation of the unaudited condensed consolidated financial statements of the Group for the Review Period are consistent with those applied in the Group’s audited financial statements for the year ended 31 December 2014.

4. ADOPTION OF NEW AND REVISED IFRSs

In the Review Period, the Group has adopted a number of new and revised IFRSs, amendments to International Accounting Standards and Interpretations (hereinafter collectively referred to as the “new and revised IFRSs”) issued by the IASB that are relevant to the Group and effective for accounting periods beginning on or after 1 January 2013. The adoption of these new and revised IFRSs did not result in substantial changes to the Group’s accounting policies and amounts reported for the Review Period and prior periods/years.

The Group has not adopted in advance the new and revised IFRSs that have been issued but are not yet effective. The Directors anticipate that the application of the new and revised IFRSs will have no material impact on the results and financial position of the Group.

5. REVENUE

Revenue, which is also the Group's turnover, represents income from advertising, PR and event marketing services, net of business tax and surcharges.

The following table sets forth the breakdown of revenue:

	Unaudited For the three months ended 31 March	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Advertising income	35,562.24	21,000.79
PR services income	11,020.33	20,380.45
Event marketing services income	16,601.95	20,030.39
Less: business tax and surcharges	711.30	1,080.57
Total	<u>62,473.22</u>	<u>60,331.06</u>

6. OTHER INCOME AND GAINS

Other income and gains include interest income and government subsidies.

	Unaudited For the three months ended 31 March	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Other income and gains:		
Interest income	418.34	351.27
Government subsidies	1,060.99	2,512.82
Total	<u>1,479.33</u>	<u>2,864.09</u>

7. TAXATION

The Group did not carry out any operation in the Cayman Islands during the Review Period, thus the Group was not subject to any profits tax or income tax liabilities pursuant to the relevant laws of the Cayman Islands. No provision for Hong Kong profits tax was made since the Group did not generate any profits assessable in Hong Kong. Therefore, the income tax expense was PRC enterprises income tax expense. Pursuant to the PRC Enterprise Income Tax Law which became effective on 1 January 2008, the PRC enterprise income tax rate applicable to all the subsidiaries in the PRC is 25%. During the Review Period, the total income tax expense of the Group amounted to RMB1,665,765 (for the three months ended 31 March 2014: RMB2,264,120).

8. DIVIDENDS

The board of Directors (“the Board”) of the Company did not recommend the payment of any dividend for the three months ended 31 March 2015 (for the three months ended 31 March 2014: Nil).

9. SHARE CAPITAL

The following changes in the Company’s authorised and issued share capital took place during the period from 15 March 2011 (the date of incorporation) to 31 March 2015:

	Number of shares	RMB
Authorised:		
Upon incorporation (38,000,000 shares of HK\$0.01 each)	38,000,000	316,016
Increase in authorised share capital on 10 April 2012	<u>1,962,000,000</u>	<u>16,316,405</u>
As at 31 March 2015	<u><u>2,000,000,000</u></u>	<u><u>16,632,421</u></u>
Issued and fully paid:		
Upon incorporation (1 issued and fully paid share of HK\$0.01)	1	–
879 and 120 fully paid shares issued on 18 April 2011 and 25 May 2011, respectively	<u>999</u>	<u>8</u>
Capitalisation issue credited as fully paid on the share premium account of the Company	149,999,000	1,213,822
Shares issued under placing	50,000,000	404,610
New shares issued on 17 June 2013	<u>46,810,194</u>	<u>378,297</u>
As at 31 March 2015	<u><u>246,810,194</u></u>	<u><u>1,996,737</u></u>

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to owners of the Group of RMB2,033,285 for the Review Period (for the three months ended 31 March 2014: approximately RMB6,792,360), and the weighted average number of ordinary shares of 246,810,194 shares (for the three months ended 31 March 2014: 246,810,194 shares).

Diluted earnings per share equals to basic earnings per share, as there were no potential dilutive ordinary shares issued during the three months ended 31 March 2015 and the three months ended 31 March 2014.

FINANCIAL ANALYSIS

Revenue

During the Review Period, the revenue of the Group was RMB62,473,221, representing an increase of RMB2,142,161 as compared with RMB60,331,060 for the same period in 2014. Such increase was mainly due to the rapid growth of digital media (particularly the wireless media) communications methods adopted by the Group which had accurate, interactive and high efficiency advertisement placement features and attracted the customers to place orders on an on-going basis, thus resulting in an increase of orders as compared with the same period in 2014.

Other income and gains

Other income and gains decreased from RMB2,864,090 for the three months ended 31 March 2014 to RMB1,479,332 for the Review Period, which mainly represented government subsidy income and interest income. The decrease was due to a decrease in the government grant received by the Group during the Review Period.

Cost of sales and gross profit

The key components of the Group's cost of sales comprised expenses for procuring advertising and/or text advertisements spaces as well as event organizing and production costs. During the Review Period, the Group's cost of sales for the Review Period amounted to RMB49,881,193, representing a slight increase as compared with RMB46,768,630 for the three months ended 31 March 2014. Such increase was mainly due to the Group's efforts to obtain better mobile media resources to meet customers' needs, resulting in an increase in costs as compared with the same period of last year.

The gross profit of the Group decreased from RMB13,562,430, for the three months ended 31 March 2014 to RMB12,592,030 for the Review Period.

Selling and distribution expenses

Selling and distribution expenses decreased to RMB1,465,821 for the Review Period from RMB1,698,830 for the three months ended 31 March 2014. The decrease was due to the decline in such segment expenses as a result of the Group's contraction of certain expense budgets (such as office expenses and other sundry expenses, etc.) for the objectives of saving cost and increasing profit.

Administrative expenses

During the Review Period, the administrative expenses increased to RMB8,623,888 from RMB5,366,350 for the corresponding period of last year. The increase was primarily due to the fact that (i) the consulting fees for the services of the professional parties incurred during the Company's application to the Stock Exchange for the transfer of listing of its Shares from GEM to the Main Board significantly increased as compared with that of the corresponding period of last year; and (ii) the expansion of workplace by the Group in response to business development requirement led to an increase in its lease expenses as compared with that of the corresponding period of last year.

Net profit

The net profit of the Group decreased from RMB6,792,360, for the three months ended 31 March 2014 to RMB2,033,290 for the Review Period. The decrease was mainly due to: (i) increased costs as compared with that of last year to meet the customers' demands and to acquire better mobile media resources; (ii) the intermediary consulting fees incurred by the Company in relation to its application to the Stock Exchange for the transfer of listing of its Shares from GEM to the Main Board; and (iii) the expansion of workplace by the Group in response to business development requirement which led to an increase in its lease expenses as compared with that of the corresponding period of last year.

Charge on assets

As at 31 March 2015, the Group did not charge any of its assets for bank borrowings or for any other purposes (as at 31 December 2014: Nil).

Contingent liabilities

As at 31 March 2015, the Group did not have any significant contingent liabilities.

Foreign exchange risk

The Group's main operations are in the PRC with most of its transactions settled in Renminbi. Some of the Group's bank deposits are denominated in Hong Kong dollars. The Directors are of the opinion that the Group's exposure to foreign exchange risk is insignificant. During the Review Period, the Group did not hedge any exposure to foreign exchange risk.

Material acquisition and disposal

During the Review Period, there was no acquisition and disposal of subsidiaries and associated companies by the Group.

BUSINESS REVIEW AND PROSPECT

Business review

During the Review Period, the Group continued to maintain three primary business segments, namely advertising communications, PR communications and event marketing as core businesses, and placed particular emphasis on integrating its digital media with advertising, PR and event marketing businesses, thereby facilitating the digitization and mobilization process of its businesses. The income generated from digital media expressed as a percentage of the total revenue for the Review Period increased to approximately 55.28% from approximately 42.93% for the corresponding period of last year, which further strengthened and expanded the strategic achievements of the shifting of the Company to a digital marketing communications enterprise.

In terms of customers, the Group continued to feature the digital marketing business during the Review Period, and fully capitalized on the advantage of specialties of the service team, thus inducing the customers to make corresponding adjustments on their marketing strategies with the focus gradually being transferred to digital marketing segment. Meanwhile, during the Review Period, the Group continued to increase its efforts in the exploration of the mainstream digital media (in particular, mobile media) resources, extended its reach into the mobile media market, continuously reinforced the self media resources and enhanced the full service solutions so as to achieve the income increase target of the Group.

Future prospects

The media market of the PRC is a very unique industry. The end of an old year and the beginning of a new one is time for customers to prepare marketing plans, and for marketing services providers and media suppliers to negotiate cooperation plans. Therefore, the first quarter is a slack season for the marketing services providers in the PRC. However, the revenue of the Group for the Review Period, notably the increase in the revenue generated from digital media, demonstrates the competitive advantages of our Group. The Board is of the opinion that the Group, being a professional digital marketing services provider, will be able to continuously extend the income scale of the customers and attract new customers through abundant high-quality media platforms and offer integrated marketing service approaches in line with the development trends of the media industry, so as to enhance our long-term profitability.

CORPORATE GOVERNANCE CODE

The Company strives to maintain a high standard of corporate governance practices. The Directors consider that the Company has complied with all code provisions of the Corporate Governance Code (the “Code”) contained in Appendix 15 to the GEM Listing Rules during the Review Period. The Company will continue to review its corporate governance practices from time to time in order to enhance its corporate governance standards, comply with increasingly stringent regulatory requirements and meet the growing expectations of shareholders and investors.

DIRECTORS’ INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the paragraph headed “Continuing Connected Transactions” in the section headed “Report of the Directors” in the annual report of the Company for the year ended 31 December 2014, during the Review Period, none of the Directors had material interests, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party.

INTERESTS OF THE COMPLIANCE ADVISER

None of the Company’s compliance adviser, Anglo Chinese Corporate Finance, Limited, or its directors, employees or associates (as defined in the GEM Listing Rules) had any interests in the share capital of the Group as at 31 March 2015 pursuant to Rule 6A.32 of the GEM Listing Rules.

COMPETING BUSINESS

During the Review Period, none of the Directors, the controlling shareholders or the substantial shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules), had engaged in any business that competes or may compete, directly or indirectly, with the business of the Group or has any other conflicts of interest with the Group nor are they aware of any other conflicts of interest which any such person has or may have with the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Review Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company.

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at 31 March 2015, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO) or required to be entered in the register of the Company pursuant to section 352 of the SFO, or required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

Long positions in the Shares

Name of director	Number of ordinary shares			Total	Approximate percentage of the issued share capital
	Personal interest	Family interest	Interest in controlled corporation		
Mr. Fang Bin ("Mr. Fang") (note 1)	–	–	112,500,000	112,500,000	45.58%
Mr. Fan Youyuan ("Mr. Fan") (note 2)	–	–	14,700,000	14,700,000	5.96%
Mr. Huang Wei ("Mr. Huang") (note 3)	–	–	46,810,194	46,810,194	18.97%

Notes:

- These Shares are owned by Lapta International Limited, the entire issued share capital of which is beneficially owned by Mr. Fang. Accordingly, under the SFO, Mr. Fang is taken or deemed to be interested in the 112,500,000 Shares held by Lapta International Limited.
- These Shares are owned by Whales Capital Holdings Limited which is wholly owned by Taocent International Holding Limited which is in turn wholly owned by Mr. Fan. Accordingly, under the SFO, Mr. Fan is taken or deemed to be interested in the 14,700,000 Shares held by Whales Capital Holdings Limited.
- These Shares are owned by Always Bright Enterprises Limited, the entire issued share capital of which is beneficially owned by Mr. Huang. Accordingly, under the SFO, Mr. Huang is taken or deemed to be interested in the 46,810,194 Shares held by Always Bright Enterprises Limited.

Save as disclosed above, as at 31 March 2015, none of the directors and chief executive of the Company had any interest or short position in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which will be required pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2015, so far as the Directors are aware, without taking into account any Shares which will be issued pursuant to the options which may be granted under the Share Option Scheme (as defined below), the interests or short positions owned by the following persons (other than the directors or chief executive of the Company) in the Shares or underlying shares of the Company which are required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO or which are required to be recorded in the register of the Company required to be kept under section 336 of the SFO are as follows:

Long positions in the Shares

Name	Capacity	Number of ordinary Shares	Approximate percentage of the issued share capital
Lapta International Limited	Beneficial owner	112,500,000	45.58%
Always Bright Enterprises Limited (Note 1)	Beneficial owner	46,810,194	18.97%
Ms. Yuan Yuan (Note 1)	Spouse's interest	46,810,194	18.97%
Whales Capital Holdings Limited (Note 2)	Beneficial owner	14,700,000	5.96%
Taocent International Holding Limited (Note 2)	Interest in controlled corporation	14,700,000	5.96%
Ms. Yin Rong (Note 2)	Spouse's interest	14,700,000	5.96%
Jolly Win Management Limited (Note 3)	Beneficial owner	13,500,000	5.47%
Mr. Lin Kaiwen (Note 3)	Interest in controlled corporation	13,500,000	5.47%
Ms. Chen Suzhen (Note 3)	Spouse's interest	<u>13,500,000</u>	<u>5.47%</u>

Notes:

1. Mr. Huang beneficially owns the entire issued share capital of Always Bright Enterprises Limited, which in turn holds 46,810,194 Shares. Ms. Yuan Yuan is the spouse of Mr. Huang. For the purposes of the SFO, Ms. Yuan Yuan is deemed or taken to be interested in all the Shares in which Mr. Huang is interested.
2. Mr. Fan beneficially owns the entire issued share capital of Taocent International Holding Limited which in turn wholly owns Whales Capital Holdings Limited which owns 14,700,000 Shares. Ms. Yin Rong is the spouse of Mr. Fan. For the purposes of SFO, Ms. Yin Rong is deemed or taken to be interested in all the Shares in which Mr. Fan is interested.
3. Mr. Lin Kaiwen beneficially owns the entire issued share capital of Jolly Win Management Limited, which in turn held 13,500,000 Shares. For the purposes of the SFO, Mr. Lin Kaiwen is deemed to be interested in all the Shares held by Jolly Win Management Limited. Ms. Chen Suzhen is the spouse of Mr. Lin Kaiwen. For the purposes of the SFO, Ms. Chen Suzhen is deemed to or taken to be interested in all the Shares in which Mr. Lin Kaiwen is interested.

Save as disclosed above and as at 31 March 2015, the Directors are not aware of any interests or short positions owned by any persons (other than the directors or chief executive of the Company) in the Shares or underlying shares of the Company which were required to be disclosed under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the “Share Option Scheme”) on 10 April 2012. The summary of the major terms and conditions of the Share Option Scheme is set out in the section “Share Option Scheme” in Appendix V to the Prospectus. The Company did not grant, exercise or cancel any options under the Share Option Scheme during the Review Period, and there were no outstanding options under the Share Option Scheme as at 31 March 2015.

EMPLOYEES’ SHARE AWARD SCHEME

On 29 September 2014, the Company has adopted an employees’ share award scheme (the “Share Award Scheme”). The Share Award Scheme is to recognize the contributions by certain selected employees and to give incentives thereto in order to retain them for the continual operations and development of the Group and to attract suitable personnel for further development of the Group.

The Share Award Scheme does not constitute a share option scheme pursuant to Chapter 23 of the GEM Listing Rules and is a discretionary award scheme of the Company. For details of the Share Award Scheme, please refer to the announcement of the Company dated 29 September 2014.

No Share was awarded under the Share Award Scheme during the Review Period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUER

The Group has adopted the required standard of dealings, as set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct for securities transactions by the Directors in respect of the Shares of the Company. Having made specific enquiry of all Directors, all Directors have confirmed that they have complied with the required standard of dealings and the code of conduct for securities transactions by directors during the Review Period.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the unaudited condensed consolidated financial statements and the results of the Group for the Review Period and this report, and considered that the results and this report have been prepared in accordance with the applicable accounting standards and requirements.

By order of the board of Directors
Branding China Group Limited
Fang Bin
Executive Director and Chairman

Shanghai, the PRC, 5 May 2015

As at the date of this report, the board of Directors comprises four executive Directors, namely Mr. Fang Bin (Chairman), Mr. Patrick Zheng, Mr. Huang Wei and Mr. Song Yijun; one non-executive Director, namely Mr. Fan Youyuan; and three independent non-executive Directors, namely Mr. Zhou Ruijin, Mr. Lin Zhiming and Ms. Hsu Wai Man, Helen.