



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 2022

#### CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate small and mid-sized 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.

Given that the companies listed on GEM are generally small and mid-sized companies, 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.*

**SUMMARY**

- The Group recorded an unaudited revenue of approximately HK\$44,716,000 for the nine months ended 30 September 2022, representing a decrease of 18.2% as compared with the corresponding period in 2021.
- The unaudited loss attributable to the owners of the Company for the nine months ended 30 September 2022 was approximately HK\$7,308,000.
- The Board does not recommend any payment of an interim dividend for the nine months ended 30 September 2022.

## UNAUDITED THIRD QUARTERLY RESULTS

The board of Directors (the “Board”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (together, the “Group”) for the three months and the nine months ended 30 September 2022 together with the comparative figures for the corresponding periods in 2021 as follows:

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

For the three months and the nine months ended 30 September 2022

	Notes	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
		2022 HK\$	2021 HK\$	2022 HK\$	2021 HK\$
<b>Revenue</b>	2	<b>13,316,435</b>	17,497,896	<b>44,715,627</b>	54,690,900
Cost of sales		<u>(10,522,500)</u>	<u>(13,566,482)</u>	<u>(34,394,587)</u>	<u>(40,832,809)</u>
<b>Gross profit</b>		<b>2,793,935</b>	3,931,414	<b>10,321,040</b>	13,858,091
Other income	3	<b>122,549</b>	264,924	<b>442,554</b>	490,994
Other gains/(losses), net	4	<b>1,106,146</b>	(255,087)	<b>(40,074)</b>	(942,367)
Selling and distribution costs		<b>(582,720)</b>	(569,366)	<b>(1,869,198)</b>	(2,034,657)
Administrative expenses		<b>(5,224,616)</b>	(5,435,983)	<b>(16,171,105)</b>	(16,288,499)
Change in fair value of investment in TV programmes		–	–	<b>235,294</b>	3,739,445
Finance costs	5	<u>(65,700)</u>	<u>(97,473)</u>	<u>(226,303)</u>	<u>(296,469)</u>
<b>Loss before income tax</b>		<b>(1,850,406)</b>	(2,161,571)	<b>(7,307,792)</b>	(1,473,462)
Income tax expense	6	–	–	–	–
<b>Loss for the period</b>		<u><b>(1,850,406)</b></u>	<u>(2,161,571)</u>	<u><b>(7,307,792)</b></u>	<u>(1,473,462)</u>

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2022	2021	2022	2021
<i>Notes</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
<b>Other comprehensive (loss)/income:</b>				
<i>Item that may be reclassified subsequently to profit or loss:</i>				
Exchange differences on translation of financial statements of foreign operations	<u>(350,976)</u>	<u>105,010</u>	<u>(55,981)</u>	<u>814,135</u>
Other comprehensive (loss)/ income for the period	<u>(350,976)</u>	<u>105,010</u>	<u>(55,981)</u>	<u>814,135</u>
<b>Total comprehensive loss for the period</b>	<b><u>(2,201,382)</u></b>	<b><u>(2,056,561)</u></b>	<b><u>(7,363,773)</u></b>	<b><u>(659,327)</u></b>
<b>Loss for the period attributable to:</b>				
Owners of the Company	<u>(1,850,406)</u>	<u>(2,161,571)</u>	<u>(7,307,667)</u>	<u>(1,473,337)</u>
Non-controlling interests	<u>–</u>	<u>–</u>	<u>(125)</u>	<u>(125)</u>
	<b><u>(1,850,406)</u></b>	<b><u>(2,161,571)</u></b>	<b><u>(7,307,792)</u></b>	<b><u>(1,473,462)</u></b>
<b>Total comprehensive loss for the period attributable to:</b>				
Owners of the Company	<u>(2,201,382)</u>	<u>(2,056,561)</u>	<u>(7,363,648)</u>	<u>(659,202)</u>
Non-controlling interests	<u>–</u>	<u>–</u>	<u>(125)</u>	<u>(125)</u>
	<b><u>(2,201,382)</u></b>	<b><u>(2,056,561)</u></b>	<b><u>(7,363,773)</u></b>	<b><u>(659,327)</u></b>
	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
<b>Loss per share attributable to owners of the Company</b>				
Basic and diluted	<u>(0.352)</u>	<u>(0.411)</u>	<u>(1.391)</u>	<u>(0.280)</u>

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## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the nine months ended 30 September 2022*

	Attributable to owners of the Company								Non-controlling interests	Total equity
	Share capital	Share premium	Contributed surplus	Share option reserve	Other reserves	Translation reserve	Accumulated losses	Total		
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Balance at 1 January 2021 (Audited)	105,069,500	363,340,792	13,985,669	3,339,000	7	10,751,190	(446,322,024)	50,164,134	230,845	50,394,979
Loss for the period	-	-	-	-	-	-	(1,473,337)	(1,473,337)	(125)	(1,473,462)
Other comprehensive income										
- Exchange differences on translation of financial statements of foreign operations	-	-	-	-	-	814,135	-	814,135	-	814,135
Total comprehensive income/(loss) for the period	-	-	-	-	-	814,135	(1,473,337)	(659,202)	(125)	(659,327)
Balance at 30 September 2021 (Unaudited)	105,069,500	363,340,792	13,985,669	3,339,000	7	11,565,325	(447,795,361)	49,504,932	230,720	49,735,652
Balance at 1 January 2022 (Audited)	105,069,500	363,340,792	13,985,669	3,339,000	7	11,597,920	(452,084,957)	45,247,931	230,720	45,478,651
Loss for the period	-	-	-	-	-	-	(7,307,667)	(7,307,667)	(125)	(7,307,792)
Other comprehensive loss										
- Exchange differences on translation of financial statements of foreign operations	-	-	-	-	-	(55,981)	-	(55,981)	-	(55,981)
Total comprehensive loss for the period	-	-	-	-	-	(55,981)	(7,307,667)	(7,363,648)	(125)	(7,363,773)
Balance at 30 September 2022 (Unaudited)	105,069,500	363,340,792	13,985,669	3,339,000	7	11,541,939	(459,392,624)	37,884,283	230,595	38,114,878

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the nine months ended 30 September 2022

### 1. BASIS OF PREPARATION

This unaudited condensed consolidated financial information for the nine months ended 30 September 2022 has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) which collectively includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKAS”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the accounting principles generally accepted in Hong Kong. The unaudited condensed consolidated financial information also complies with 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 2021.

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 2022, the accounting policies applied are consistent with those of the audited annual financial statements of the Group for the year ended 31 December 2021, 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.

The Group has not early applied the new and revised HKFRSs that have been issued by the HKICPA but are not yet effective.

It should be noted that accounting estimates and assumptions are used in preparation of the unaudited condensed consolidated financial information. Although these estimates and assumptions are based on management’s best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates and assumptions.

In preparing this 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 2021.

### 2. REVENUE

The Group’s revenue for goods transferred at a point in time from external customers is as follows:

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2022 HK\$	2021 HK\$	2022 HK\$	2021 HK\$
Sales of smart cards	13,316,435	17,497,896	44,704,777	54,676,340
Sales of smart card application systems	–	–	10,850	14,560
	<b>13,316,435</b>	<b>17,497,896</b>	<b>44,715,627</b>	<b>54,690,900</b>

3. OTHER INCOME

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2022 HK\$	2021 HK\$	2022 HK\$	2021 HK\$
Bank interest income	1,022	2,117	3,503	5,781
Government subsidies	112,000	252,708	418,298	252,708
Sundry income	9,527	10,099	20,753	232,505
	<u>122,549</u>	<u>264,924</u>	<u>442,554</u>	<u>490,994</u>

4. OTHER GAINS/(LOSSES), NET

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2022 HK\$	2021 HK\$	2022 HK\$	2021 HK\$
Loss on disposal of property, plant and equipment	–	(103,583)	–	(103,583)
Exchange gains/(losses), net	1,106,146	(151,504)	(40,074)	(838,784)
	<u>1,106,146</u>	<u>(255,087)</u>	<u>(40,074)</u>	<u>(942,367)</u>

5. FINANCE COSTS

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2022 HK\$	2021 HK\$	2022 HK\$	2021 HK\$
Finance charges on lease liabilities	65,700	97,473	226,303	296,469
	<u>65,700</u>	<u>97,473</u>	<u>226,303</u>	<u>296,469</u>

## 6. INCOME TAX EXPENSE

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2022 HK\$	2021 HK\$	2022 HK\$	2021 HK\$
Income tax expense	-	-	-	-

Notes:

### (a) Hong Kong

Under the two-tiered profits tax rates regime in Hong Kong, the first HK\$2,000,000 of profits of qualifying group entity will be taxed at 8.25%, and the profits above HK\$2,000,000 will be taxed at 16.5%. The profits of entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. No Hong Kong Profits Tax has been provided for the nine months ended 30 September 2022 as the Group has sufficient tax losses brought forward to set off against assessable profits in Hong Kong (2021: did not generate any estimated profits in Hong Kong).

### (b) PRC

The PRC Enterprise Income Tax has been calculated at 25% (2021: 25%) on the estimated assessable profits for the nine months ended 30 September 2022 based on the existing legislation, interpretations and practices in respect thereof. No PRC Enterprise Income Tax has been provided for the nine months ended 30 September 2022 as the Group did not generate any estimated profits in PRC during the period (2021: has sufficient tax losses brought forward to set off against assessable profits in the PRC).

### (c) Other jurisdictions

Pursuant to the rules and regulations of the Cayman Islands, the British Virgin Islands (the "BVI") and Taiwan, the Group is not subject to any income tax in the Cayman Islands, the BVI and Taiwan (2021: nil).

## 7. DIVIDEND

The Board does not recommend any payment of an interim dividend for the nine months ended 30 September 2022 (2021: nil).



## 8. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

### (a) Basic loss per share

Basic loss per share is calculated by dividing the loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period, calculated as follows:

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2022	2021	2022	2021
	HK\$	HK\$	HK\$	HK\$
Loss attributable to owners of the Company (HK\$)	(1,850,406)	(2,161,571)	(7,307,667)	(1,473,337)
Weighted average number of ordinary shares in issue	<u>525,347,500</u>	<u>525,347,500</u>	<u>525,347,500</u>	<u>525,347,500</u>
Basic loss per share (expressed in HK cents per share)	<u>(0.352)</u>	<u>(0.411)</u>	<u>(1.391)</u>	<u>(0.280)</u>

### (b) Diluted loss per share

As the Company's outstanding share options had an anti-dilutive effect to the basic loss per share calculation for the three months and the nine months ended 30 September 2022 and 2021, the exercise of the potential ordinary shares is not assumed in the computation of diluted loss per share. Therefore, the diluted loss per share attributable to owners of the Company for the three months and the nine months ended 30 September 2022 and 2021 are the same as the basic loss per share for the respective periods.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operation and Financial Review

#### *Revenue*

During the nine months ended 30 September 2022 (the “Reporting Period”), the Group’s financial result was principally derived from the contract manufacturing and sales of smart cards.

During the Reporting Period, the Group’s revenue generated from the SIM card manufacturing business amounted to approximately HK\$44.7 million, representing a decline of approximately HK\$10.0 million, or 18.3%, as compared to the corresponding period in 2021 of approximately HK\$54.7 million. The decrease was mainly due to the outbreak of the COVID-19 Omicron variant in China, and the control measures which impacted the Shenzhen plant operations.

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

During the Reporting Period, cost of sales incurred for the SIM card manufacturing business amounted to approximately HK\$34.4 million, a decline of approximately HK\$6.4 million or 15.7% as compared to the corresponding period in 2021 of approximately HK\$40.8 million. The decrease in COS was in line with the decrease in revenue year-on-year.

Due to the above-mentioned, gross profit of the Group declined by approximately HK\$3.6 million or 25.9% year-on-year, from the corresponding period in 2021 of approximately HK\$13.9 million, to approximately HK\$10.3 million.

#### *Other Income*

Other income of approximately HK\$0.44 million consisted of government subsidy of approximately HK\$418,300, bank interest income of approximately HK\$3,500 and sundry income of approximately HK\$20,700 (nine months ended 30 September 2021: approximately HK\$491,000, comprised of government subsidy of approximately HK\$252,700, sundry income and interest income of approximately HK\$232,500 and HK\$5,800 respectively).

#### *Other Gains/(Losses), Net*

During the Reporting Period, other losses amounted to approximately HK\$0.04 million which was attributable to the exchange losses arising from foreign currency-based transactions (nine months ended 30 September 2021: HK\$0.94 million, comprised of loss of disposal of property, plant and equipment of approximately HK\$0.10 million and the exchange losses arising from foreign currency based transactions of approximately HK\$0.84 million).

#### *Selling and Distribution Costs*

During the Reporting Period, selling and distribution costs amounted to approximately HK\$1.87 million, representing a drop of approximately HK\$0.16 million, or 7.9%, as compared to the corresponding period in 2021 of approximately HK\$2.03 million. The decrease was mainly due to the decreases in transportation costs.

### ***Administrative Expenses***

Administrative expenses also recorded a slight decrease of approximately HK\$0.12 million, or 0.7% during the Reporting Period, from approximately HK\$16.29 million for the corresponding period in 2021, to approximately HK\$16.17 million.

### ***Change in Fair Value of Investment in TV programmes***

During the Reporting Period, a fair value gain on investment in TV programmes of approximately HK\$235,000 was recognised (nine months ended 30 September 2021: approximately HK\$3.74 million).

Due to the outbreak of Omicron in China and the related control measures implemented during the period under review, the estimated timetable of production will be delayed by 4 to 6 months. The fair value gain was mainly attributable to the changes in discount rate (due to changes in market parameters that determine the discount rate applied).

### ***Finance Costs***

During the Reporting Period, the Group's finance costs, representing the finance charges on lease liabilities, amounted to approximately HK\$0.23 million (nine months ended 30 September 2021: approximately HK\$0.30 million).

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

There was no income tax expense incurred during the Reporting Period (nine months ended 30 September 2021: nil).

### ***Non-controlling Interest***

During the Reporting Period, a loss of HK\$125 attributable to the non-controlling interests was recognized (nine months ended 30 September 2021: HK\$125).

As a result of the foregoing, loss attributable to owners of the Company for the Reporting Period amounted to approximately HK\$7.31 million (nine months ended 30 September 2021: approximately HK\$1.47 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 and other borrowings. As at 30 September 2022, the Group had cash and bank balances of approximately HK\$5.4 million (31 December 2021: approximately HK\$3.7 million) and other borrowings of approximately HK\$0.5 million (31 December 2021: nil).

As at 30 September 2022, the Group had current assets of approximately HK\$27.8 million (31 December 2021: approximately HK\$36.3 million) and current liabilities of approximately HK\$30.1 million (31 December 2021: approximately HK\$34.6 million). The current ratio, expressed as current assets over current liabilities, was 0.9 (31 December 2021: 1.0).

## GEARING RATIO

The gearing ratio of the Group, expressed as a percentage of total borrowings including lease liabilities to total assets of the Group, was 9.2% as at 30 September 2022 (31 December 2021: 10.1%).

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

As at 30 September 2022, the interests or short positions of the Directors and chief executive 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 (Chapter 571 of the Laws of Hong Kong) (the "SFO") which would have to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or which would be required pursuant to section 352 of the SFO or to be entered in the register as referred to therein, or otherwise required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, were as follows:

Name of Directors	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
<b>Executive Directors</b>					
Lily Wu ( <i>Note 1</i> )	Beneficial owner	Long	100,000	4,500,000	0.88
Chang Wei Wen ( <i>Note 1</i> )	Beneficial owner	Long	525,000	4,500,000	0.96
Yang Meng Hsiu ( <i>Note 1</i> )	Beneficial owner	Long	4,300,000	4,500,000	1.68
<b>Independent non-executive Directors</b>					
Chan Siu Wing, Raymond ( <i>Note 2</i> )	Beneficial owner	Long	–	450,000	0.09
Leung Ka Kui, Johnny ( <i>Note 2</i> )	Beneficial owner	Long	–	450,000	0.09
Wong Ka Wai, Jeanne ( <i>Note 2</i> )	Beneficial owner	Long	–	450,000	0.09

*Notes:*

1. These include 4,500,000 share options conferring rights to subscribe for 4,500,000 shares.
2. These include 450,000 share options conferring rights to subscribe for 450,000 shares.

Save as disclosed above, as at 30 September 2022, none of the Directors nor chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which was required to be recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or which was required, pursuant to the Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

## **SUBSTANTIAL SHAREHOLDERS**

As at 30 September 2022, as far as is known to the Directors, the persons (other than Directors or chief executive of the Company) or corporations who had interest or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

<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	63,142,512	12.02
Best Heaven Limited <i>(Note 1)</i>	Beneficial	Long	31,586,500	6.01
Mr. Tsai Chi Yuan <i>(Note 1)</i>	Interests in controlled company	Long	94,729,012	18.03

*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 2022, the Directors and the chief executive of the Company were not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company which would require to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

## 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. Summary of the share options outstanding during the nine months ended 30 September 2022 are as follows:

Name of participants	At 1 January 2022	Granted during the period	At 30 September 2022	Date of grant	Exercisable period	Exercise price HK\$
<b>Executive Directors</b>						
Lily Wu (Note 1)	4,500,000	–	4,500,000	3 January 2018	3 January 2018 to 2 January 2028	0.20
Chang Wei Wen (Note 1)	4,500,000	–	4,500,000	3 January 2018	3 January 2018 to 2 January 2028	0.20
Yang Meng Hsiu (Note 1)	4,500,000	–	4,500,000	3 January 2018	3 January 2018 to 2 January 2028	0.20
<b>Independent non-executive Directors</b>						
Chan Siu Wing, Raymond (Note 1)	450,000	–	450,000	3 January 2018	3 January 2018 to 2 January 2028	0.20
Leung Ka Kui, Johnny (Note 1)	450,000	–	450,000	3 January 2018	3 January 2018 to 2 January 2028	0.20
Wong Ka Wai, Jeanne (Note 1)	450,000	–	450,000	3 January 2018	3 January 2018 to 2 January 2028	0.20
	14,850,000	–	14,850,000			
<b>Other employees</b>						
In aggregate (Note 1)	22,779,250	–	22,779,250	3 January 2018	3 January 2018 to 2 January 2028	0.20
	<u>37,629,250</u>	<u>–</u>	<u>37,629,250</u>			

Note:

- As at 30 September 2022, the remaining life was about 5.26 year.

## **AUDIT COMMITTEE**

The Company has established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The primary role and function of the audit committee are to review the Company's financial controls, internal control and risk management systems; to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard; to review the Company's financial statements, and to provide advice and comment thereon to the Board. The audit committee currently comprises three independent non-executive Directors and is chaired by Ms. Wong Ka Wai, Jeanne, the rest of members are Mr. Leung Ka Kui, Johnny and Mr. Chan Siu Wing, Raymond.

The Group's unaudited results for the three months and the nine months ended 30 September 2022 have been reviewed and agreed by the audit committee.

## **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES**

The Board believes that good corporate governance practices are essential for effective management and enhancement of shareholder value and investor confidence. The Company has taken a proactive approach in strengthening corporate governance practices, increasing transparency and sustaining accountability to shareholders through effective internal controls, under the leadership of its experienced and committed Board. The Company has applied the principles set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 15 to the GEM Listing Rules. In the opinion of the Board, the Company has complied with all the code provisions set out in the CG Code throughout the nine months ended 30 September 2022 with the exception of the code provision C.2.1 which stipulated in the following paragraphs.

Code provision C.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separated and should not be performed by the same individual. The division of responsibilities between the Chairman and Chief Executive Officer should be clearly established and set out in writing.

Ms. Lily Wu ("Ms. Wu") serves as the Chairman of the Board since 1 April 2006 and was further appointed as the Chief Executive Officer on 23 March 2009. The reasons for not splitting the roles of chairman and chief executive officer are as follows:

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

The Board considers that the current structure of vesting the roles of Chairman and Chief Executive Officer in the same person 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 of all Directors, the Directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the nine months ended 30 September 2022.

#### **COMPETING INTERESTS**

As at 30 September 2022, 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 2022.

For order of the Board

**Lily Wu**

*Chairman*

Hong Kong, 10 November 2022