

G·D·C

環球數碼

Global Digital Creations Holdings Limited

環球數碼創意控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 8271)



FIRST QUARTERLY REPORT
2014

* For identification purpose only

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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This report, for which the directors (the “Directors”) of Global Digital Creations Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the 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.

CONTENTS

CORPORATE INFORMATION	3
FIRST QUARTERLY RESULTS	
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	5
INTERIM DIVIDEND	12
MANAGEMENT DISCUSSION AND ANALYSIS	12
PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES	15
DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES	15
DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES	16
SUBSTANTIAL SHAREHOLDERS	16
SHARE OPTION SCHEME	17
DIRECTORS' INTERESTS IN COMPETING BUSINESSES	17
COMPLIANCE WITH CORPORATE GOVERNANCE CODE	17
COMPLIANCE WITH CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS	17
AUDIT COMMITTEE	17
APPRECIATION	18

CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Li Shaofeng (*Chairman*)
Mr. Chen Zheng (*Chief Executive Officer*)
Mr. Jin Guo Ping (*Vice President*)

Non-executive Director

Mr. Leung Shun Sang, Tony

Independent non-executive Directors

Mr. Kwong Che Keung, Gordon
Prof. Japhet Sebastian Law
Mr. Chan Chung Chun

Executive Committee

Mr. Li Shaofeng (*Chairman*)
Mr. Chen Zheng
Mr. Jin Guo Ping

Audit Committee

Mr. Kwong Che Keung, Gordon (*Chairman*)
Prof. Japhet Sebastian Law
Mr. Chan Chung Chun

Nomination Committee

Mr. Li Shaofeng (*Chairman*)
Mr. Leung Shun Sang, Tony (*Vice Chairman*)
Mr. Kwong Che Keung, Gordon
Prof. Japhet Sebastian Law
Mr. Chan Chung Chun

Remuneration Committee

Prof. Japhet Sebastian Law (*Chairman*)
Mr. Li Shaofeng (*Vice Chairman*)
Mr. Leung Shun Sang, Tony
Mr. Kwong Che Keung, Gordon
Mr. Chan Chung Chun

Compliance Officer

Mr. Chen Zheng

Company Secretary

Ms. Kam Man Yi, Margaret

CORPORATE INFORMATION *(Continued)*

Authorised Representatives	Mr. Chen Zheng Ms. Kam Man Yi, Margaret
Auditor	Deloitte Touche Tohmatsu
Bermuda Principal Share Registrar and Transfer Office	Codan Services Limited Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Hong Kong Branch Share Registrar and Transfer Office	Tricor Standard Limited Level 22, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Registered Office	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Head Office and Principal Place of Business in Hong Kong	Unit 1-7, 20/F., Kodak House II 39 Healthy Street East North Point Hong Kong
Stock Code	8271
Website	www.gdc-world.com

FIRST QUARTERLY RESULTS

The board of Directors of the Company (the “Board”) is pleased to report the unaudited condensed consolidated financial results of the Company and its subsidiaries (the “Group”) for the three months ended 31 March 2014 with comparative figures for the corresponding period in the year 2013.

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

For the three months ended 31 March 2014

		Three months ended	
		31 March	
	<i>NOTES</i>	2014	2013
		HK\$'000	<i>HK\$'000</i>
Revenue	3	36,649	28,666
Cost of sales		(23,397)	(20,437)
		<hr/>	<hr/>
Gross profit		13,252	8,229
Other income	4	7,049	23,556
Distribution costs and selling expenses		(2,865)	(2,444)
Administrative expenses		(15,640)	(16,035)
Finance costs	5	(1,907)	(2,374)
Other gains and losses	6	16,781	(492)
		<hr/>	<hr/>
Profit before tax		16,670	10,440
Income tax expense	7	(778)	(452)
		<hr/>	<hr/>
Profit for the period		15,892	9,988
Other comprehensive expenses:			
Item that will not be subsequently reclassified to profit or loss:			
Exchange differences on translation of financial statements from functional currency to presentation currency		(20,666)	–
		<hr/>	<hr/>
Total comprehensive (expenses) income for the period		(4,774)	9,988
		<hr/>	<hr/>

		Three months ended	
		31 March	
	<i>NOTE</i>	2014	2013
		HK\$'000	<i>HK\$'000</i>
Profit (loss) for the period attributable to:			
Owners of the Company		18,396	12,854
Non-controlling interests		(2,504)	(2,866)
		15,892	9,988
Total comprehensive (expenses) income for the period attributable to:			
Owners of the Company		(926)	12,854
Non-controlling interests		(3,848)	(2,866)
		(4,774)	9,988
		HK cents	<i>HK cents</i>
Earnings per share:	8		
Basic and diluted		1.21	0.85

NOTES:

1. BASIS OF PREPARATION

The unaudited condensed consolidated statement of profit or loss and other comprehensive income has been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules.

2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated statement of profit or loss and other comprehensive income has been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies and methods of computation used in the unaudited condensed consolidated statement of profit or loss and other comprehensive income for the three months ended 31 March 2014 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013.

In the current period, the Group has applied, for the first time, certain new and revised Hong Kong Financial Report Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for the financial year beginning on 1 January 2014. The application of these new and revised HKFRSs in the current period had no material effect on the unaudited condensed consolidated statement of profit or loss and other comprehensive income.

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

Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions ¹
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010 – 2012 Cycle ³
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011 – 2013 Cycle ¹
HKFRS 9	Financial Instruments ²
HKFRS 14	Regulatory Deferral Accounts ⁴

¹ Effective for annual periods beginning on or after 1 July 2014.

² Available for application – the mandatory effective date will be determined when the outstanding phase of HKFRS 9 are finalised.

³ Effective for annual periods beginning on or after 1 July 2014, with limited exception.

⁴ Effective for first annual HKFRS financial statements beginning on or after 1 January 2016.

3. REVENUE

An analysis of the Group's revenue is as follows:

	Three months ended	
	31 March	
	2014	2013
	HK\$'000	HK\$'000
Revenue from contracts for computer graphic ("CG") creation and production	13,605	15,983
Rental and building management service fee income	19,215	8,916
CG training fee	3,829	3,767
	36,649	28,666

4. OTHER INCOME

	Three months ended	
	31 March	
	2014	2013
	HK\$'000	HK\$'000
Dividend income from available-for-sale investments	–	6,911
Government grants	4,857	8,153
Interest income	2,082	3,550
Compensation income	–	4,750
Others	110	192
	7,049	23,556

5. FINANCE COSTS

	Three months ended	
	31 March	
	2014	2013
	HK\$'000	HK\$'000
Interest on bank borrowings wholly repayable within five years	1,907	2,374

6. OTHER GAINS AND LOSSES

	Three months ended	
	31 March	
	2014	2013
	HK\$'000	HK\$'000
Gain on disposal of held-for-trading investments	11,052	–
Increase (decrease) in fair value of held-for-trading investments	5,414	(492)
Increase in fair value of structured deposits	15	–
Reversal of allowance for doubtful debts	300	–
	16,781	(492)

7. INCOME TAX EXPENSE

	Three months ended	
	31 March	
	2014	2013
	HK\$'000	HK\$'000
Current Tax:		
PRC Enterprise Income Tax ("EIT")	778	452

No provision for Hong Kong Profits Tax has been made in the unaudited condensed consolidated statement of profit or loss and other comprehensive income for both periods as the Group had no assessable profit arising in Hong Kong.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the EIT rate of the Group's subsidiaries in the People's Republic of China (the "PRC", for the purpose of this report, does not include Hong Kong, Macau and Taiwan) is 25%. (three months ended 31 March 2013: 25%).

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	Three months ended	
	31 March	
	2014	2013
	HK\$'000	HK\$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share (Profit for the period attributable to owners of the Company)	18,396	12,854
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	1,518,256	1,518,256

All the share options of the Company were lapsed in August 2013. The computation of diluted earnings per share for the three months ended 31 March 2013 does not assume the exercises of the Company's share options as the exercise prices of the share options were higher than the average market price of the shares for the three months ended 31 March 2013.

9. UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company											
	Share capital	Share premium	Capital contribution reserve	Contributed surplus reserve	Statutory reserve	Share options reserve	Exchange reserve	Special reserve	Retained earnings	Sub-total	Non-controlling interests	Total
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
At 1 January 2014	15,183	75,856	445	245,881	870	-	73,264	39	544,591	956,129	46,112	1,002,241
Profit (loss) for the period	-	-	-	-	-	-	-	-	18,396	18,396	(2,504)	15,892
Exchange differences arising on translation of financial statements from functional currency to presentation currency	-	-	-	-	-	-	(19,322)	-	-	(19,322)	(1,344)	(20,666)
Total comprehensive (expenses) income for the period	-	-	-	-	-	-	(19,322)	-	18,396	(926)	(3,848)	(4,774)
At 31 March 2014	15,183	75,856	445	245,881	870	-	53,942	39	562,987	955,203	42,264	997,467
At 1 January 2013	15,183	75,856	445	245,881	680	16,895	55,489	39	494,053	904,521	54,971	959,492
Profit (loss) for the period and total comprehensive income (expenses) for the period	-	-	-	-	-	-	-	-	12,854	12,854	(2,866)	9,988
Sub-total	15,183	75,856	445	245,881	680	16,895	55,489	39	506,907	917,375	52,105	969,480
Lapse of share options granted	-	-	-	-	-	(107)	-	-	107	-	-	-
At 31 March 2013	15,183	75,856	445	245,881	680	16,788	55,489	39	507,014	917,375	52,105	969,480

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2014. (three months ended 31 March 2013: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL OVERVIEW

Revenue for the three months ended 31 March 2014 was HK\$36,649,000, when comparing with that of HK\$28,666,000 for the corresponding period in the year 2013, representing an increase of 28%. The increase was mainly attributable to an increase in rental and building management service fee income. Since Phase I of the Guangzhou Cultural Park (the "Cultural Park") officially commenced operation on 28 April 2013 and building management business of the Shenzhen headquarters building commenced in late 2013, rental and building management service fee income for the Group during the first quarter of 2014 increased by HK\$10,299,000 as compared with the corresponding period of last year, partially offset by a decrease in revenue from contracts for CG creation and production of HK\$2,378,000.

Cost of sales for the three months ended 31 March 2014 amounted to HK\$23,397,000, comparing with that of HK\$20,437,000 for the corresponding period in the year 2013, representing an increase of 14%. The increase was mainly attributable to more direct operating costs incurred on the operation of Phase I of the Cultural Park and the building management business of the Shenzhen headquarters building.

The Group recorded a gross profit of HK\$13,252,000 for the three months ended 31 March 2014, when comparing with that of HK\$8,229,000 for the corresponding period in the year 2013. The Group's gross profit margin for the three months ended 31 March 2014 amounted to 36% (three months ended 31 March 2013: 29%). The significant improvements in both gross profit and its margin were primarily attributable to an increased contribution from the Cultural Park to the Group's gross profit, which led to improvement of average gross profit margin.

Other income for the three months ended 31 March 2014 amounted to HK\$7,049,000 (three months ended 31 March 2013: HK\$23,556,000). It mainly included government grants of HK\$4,857,000 (three months ended 31 March 2013: HK\$8,153,000) and interest income of HK\$2,082,000 (three months ended 31 March 2013: HK\$3,550,000).

Distribution costs and selling expenses for the three months ended 31 March 2014 amounted to HK\$2,865,000 (three months ended 31 March 2013: HK\$2,444,000), representing an increase of 17%. The increase was mainly attributable to increase in the marketing expenses spent during the period.

Administrative expenses for the three months ended 31 March 2014 amounted to HK\$15,640,000 (three months ended 31 March 2013: HK\$16,035,000), representing a decrease of 2%. The decrease is mainly attributable to decreases in legal, consulting and professional fee and office running costs during the period.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL OVERVIEW *(Continued)*

Finance costs for the three months ended 31 March 2014 was HK\$1,907,000 (three months ended 31 March 2013: HK\$2,374,000) being interest on bank borrowings for the construction of the Shenzhen headquarters building. The decrease was resulted from a repayment of bank borrowings during the period.

Other gains and losses for the three months ended 31 March 2014 amounts to HK\$16,781,000 of net gains (three months ended 31 March 2013: HK\$492,000 of net losses). It mainly included gains on the disposal of held-for-trading investments of HK\$11,052,000 (three months ended 31 March 2013: nil) and an increase in fair value of held-for-trading investments of HK\$5,414,000 (decrease in fair value of held-for-trading investments for the three months ended 31 March 2013: HK\$492,000).

As a whole, the Group recorded a profit of HK\$18,396,000 for the three months ended 31 March 2014 attributable to owners of the Company, when comparing with that of HK\$12,854,000 for the corresponding period in the year 2013, representing an increase of 43%.

BUSINESS REVIEW AND OUTLOOK

CG creation and production

In 2014, the Group continues to exert efforts in developing its core business in CG animation. There was an aggregate of four international projects in progress during the first quarter of this year, with clients from Europe. In addition to participating in the production of foreign animated films and TV series, the Group has also worked with the Television and Art Center under the Military and Political Bureau of Jinan province of the PRC to jointly produce the first real-life-military-themed animated television drama called "Smart Shunliu" in the PRC. The sample tests of this drama was passed in the first quarter and its work on screenwriting and production has commenced and is expected to be completed by the end of the year. In respect of intellectual property projects, the Group completed the post-production of "Super Three", a 2D- and 3D- animated film, during the first quarter. The film was released in early April in the PRC. The Group is now working on the dubbing and soundtrack for "Happy Little Submarine IV", another 3D-animation film series, and its promotion campaign will start soon through various specified platforms to raise awareness among communities, creating momentums for the film in the hope to recreate the success in the second quarter of 2014. Furthermore, for projects in digital animated technology exhibition and large event production, the Group continued to provide CG production services for programs of mainstream TV stations and theme parks in the PRC during the first quarter and will continue to actively expand its business.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW AND OUTLOOK *(Continued)*

CG Training

The revenue from operation of the CG training division increased slightly in the first quarter of 2014 though intense competition prevails in CG training. At the beginning of the year, the Group integrated its existing resources and optimized its team in Shanghai, Guangzhou and Shenzhen in order to bring out the best in the team and to achieve maximum economic benefits. To keep abreast with the demand of the market, our training team designed diversified practical courses and collaborated with various colleges to build up the image of top-notch occupational school. During the first quarter of 2014, Shanghai Training Centre and the Beijing Film Academy Shenzhen Research Institute signed a strategic cooperation agreement, whereby the first co-project “Advanced Workshop for Filmmakers” will be launched in the first half of this year. The workshop will cover the entire process of film production such as screenwriting, directing, acting, filming, fine arts and sound recording. The mode of teaching and learning will be organized with an emphasis on experience and interaction with an aim to nurture elite professionals in the film industry. In addition, our training team has completed the work on website optimization and the formulation of marketing campaign during the first quarter in order to be fully prepared for the admission peak in the second quarter and to maximize profit.

Cultural Park

Revenue from Cultural Park for the first quarter of this year amounted to HK\$8,264,000, representing an increase of HK\$7,426,000 when compared with that of HK\$838,000 for the same period in 2013.

During the first quarter, the Group focused on attracting tenants for the Cultural Park and the review of tenant portfolio in order to increase the rental value of the project. At the same time, the Group also continued to organize various cultural activities, including children drawing charity activities and sales and exhibitions of Chinese New Year products. In addition, the Group also promoted and published latest information of the activities of the Cultural Park through WeChat, and raised marketing efficiency through the mobile internet platform in order to attract customers and raise customer sentiment which resulted in the steady growth in the tenants’ revenue. The approval for development of Phase II of the Cultural Park is still in progress. It is expected that the management will continue to optimize its existing tenants portfolio and improve the quality of customer services in order to lay a solid foundation for Phase II of the project.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities (whether on the Stock Exchange or otherwise) during the three months ended 31 March 2014.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2014, the interests and short positions of the Directors and chief executives of the Company or any of their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise 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 and underlying shares of the Company

Name of Director	Capacity in which interests are held	Numbers of shares/underlying shares held in the Company			Approximate percentage of issued share capital of the Company
		Interests in shares	Interests under equity derivatives	Total interests	
Mr. Chen Zheng	Beneficial owner	208,728,200	-	208,728,200	13.75%
Mr. Leung Shun Sang, Tony	Beneficial owner	30,008,200	-	30,008,200	1.98%
Mr. Kwong Che Keung, Gordon	Beneficial owner	10,800,820	-	10,800,820	0.71%
Prof. Japhet Sebastian Law	Beneficial owner	3,000,000	-	3,000,000	0.20%

Save as disclosed above, as at 31 March 2014, none of the Directors, chief executives of the Company or their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise, notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, at no time during the three months ended 31 March 2014 was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2014, the following persons or corporations, other than the Directors or chief executives of the Company as disclosed above, had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Long positions in the Shares of the Company

Name of shareholder	Capacity in which interests are held	Number of shares held in the Company	Approximate percentage of total issued share capital of the Company
Shougang Holding (Hong Kong) Limited ("Shougang Holding")	Interests of controlled corporations	619,168,023 <i>(Note)</i>	40.78%
Wheeling Holdings Limited ("Wheeling")	Interests of controlled corporations	619,168,023 <i>(Note)</i>	40.78%
Shougang Concord Grand (Group) Limited ("Shougang Grand")	Interests of controlled corporations	619,168,023 <i>(Note)</i>	40.78%
Upper Nice Assets Ltd. ("Upper Nice")	Beneficial owner	619,168,023 <i>(Note)</i>	40.78%

Note: Upper Nice is an indirect wholly-owned subsidiary of Shougang Grand. Shougang Grand was held as to approximately 37.36% by Wheeling, a wholly-owned subsidiary of Shougang Holding. Accordingly, all these corporations are deemed to be interested in the shares capital of the Company which Upper Nice is interested under the SFO.

Save as disclosed above, as at 31 March 2014, the Company has not been notified of any other person or corporations (other than the Directors and chief executive(s) of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEME

On 18 June 2013, the share option scheme of the Company (the “Share Option Scheme”) which complies with the requirements of Chapter 23 of the GEM Listing Rules was adopted by the shareholders of the Company. No share option was granted since its adoption. The Share Option Scheme shall be valid and effective for a period of 10 years.

DIRECTORS’ INTERESTS IN COMPETING BUSINESSES

During the three months ended 31 March 2014, none of the Directors had an interest in a business (other than those businesses where the Director were appointed as directors to represent the interests of the Company and/or any member of the Group) which are considered to compete or are likely to compete, either directly or indirectly, with businesses of the Group.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 15 of the GEM Listing Rules throughout the three months ended 31 March 2014.

COMPLIANCE WITH CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of provisions of conduct regarding securities transactions by the Directors 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 enquiries with the Directors, all Directors confirmed that they have complied with such code of conduct and the required standard of dealings regarding securities transactions by the Directors throughout the three months ended 31 March 2014.

AUDIT COMMITTEE

The Group’s first quarterly results for the three months ended 31 March 2014 were unaudited. The Company’s audit committee (the “Audit Committee”) has reviewed the 2014 unaudited first quarterly results of the Group. A meeting of the Audit Committee was held with the management of the Company for, amongst other things, reviewing the unaudited first quarterly results of the Group for the three months ended 31 March 2014.

APPRECIATION

On behalf of the Board, I would like to extend our sincere thanks to our shareholders, business partners and customers for their continuous support to the Group. I would also extend my gratitude and appreciation to all of the Directors, management and staff for their hard work and dedication throughout the period.

By Order of the Board

Li Shaofeng

Chairman

Hong Kong, 9 May 2014