

China Smartpay Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 8325)

FIRST QUARTERLY REPORT 2014

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This report, for which the directors (the “Directors”) of China Smartpay Group 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.

FINANCIAL HIGHLIGHTS

- The Group's revenue amounted to approximately HK\$75.00 million for the three months ended 30 June 2014, which represented an increase of approximately 131% as compared with the Group's revenue recorded in the corresponding period in 2013.
- The Group reported a loss of approximately HK\$1.95 million for the three months ended 30 June 2014 as compared with a profit of approximately HK\$3.23 million recorded in the corresponding period last year. The Group reported a loss attributable to equity holders of the Company for the three months ended 30 June 2014 of approximately HK\$3.23 million (2013: approximately HK\$8,000).
- Loss per share for the loss attributable to equity holders of the Company for the three months ended 30 June 2014 was approximately 0.383 HK cents (2013: loss per share of 0.001 HK cents).
- The Board does not recommend the payment of an interim dividend for the three months ended 30 June 2014 (2013: Nil).

FIRST QUARTERLY RESULTS (UNAUDITED)

The board of Directors of the Company (the "Board") is pleased to present the unaudited condensed consolidated financial results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months ended 30 June 2014 together with the comparative figures for the corresponding period in 2013 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months ended 30 June 2014

		Unaudited Three months ended 30 June	
	<i>NOTE</i>	2014 HK\$	2013 HK\$
Revenue	2	74,995,770	32,484,013
Cost of services rendered and cost of goods sold		(62,056,106)	(22,586,625)
Gross profit		12,939,664	9,897,388
Other income		96,462	58,124
General administrative expenses		(12,325,355)	(4,545,779)
Selling and distribution costs		(521,117)	(224,325)
Finance costs	4	(9,340)	(9,596)
Share of results of an associate	9	(92,846)	–
Profit before taxation	4	87,468	5,175,812
Income tax expenses	5	(2,039,511)	(1,948,960)
(Loss) Profit for the period		(1,952,043)	3,226,852
Attributable to:			
Equity holders of the Company		(3,233,885)	(8,358)
Non-controlling interests		1,281,842	3,235,210
		(1,952,043)	3,226,852
Loss per share for loss attributable to equity holders of the Company			
Basic and diluted	7	0.3834 HK cents	0.0014 HK cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 30 June 2014

	Unaudited	
	Three months ended	
	30 June	
	2014	2013
	HK\$	HK\$
(Loss) Profit for the period	(1,952,043)	3,226,852
Other comprehensive loss		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange difference on translation of foreign subsidiaries	(158,850)	(877,908)
Total comprehensive (loss) income for the period	(2,110,893)	2,348,944
Attributable to:		
Equity holders of the Company	(3,491,568)	(740,746)
Non-controlling interests	1,380,675	3,089,690
	(2,110,893)	2,348,944

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED QUARTERLY FINANCIAL STATEMENT

For the three months ended 30 June 2014

1. CORPORATE INFORMATION AND BASIS OF PREPARATION

Corporate information

The Company was incorporated in the Cayman Islands on 12 December 2007 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares were listed on the GEM of the Stock Exchange on 28 August 2009.

Basis of preparation

The unaudited condensed first quarterly financial statements of the Company for the three months ended 30 June 2014 (the "First Quarterly Financial Statements") have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

The preparation of the First Quarterly Financial Statements requires the management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The First Quarterly Financial Statements include an explanation of events and transactions that are significant to an understanding of the changes in financial performances of the Group since 31 March 2014, and therefore, do not include all of the information required for full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards and Interpretation issued by the Hong Kong Institute of Certified Public Accountants. They shall be read in conjunction with the Group's audited financial statements for the year ended 31 March 2014 (the "Annual Report").

The First Quarterly Financial Statements have been prepared on the historical costs basis.

1. **CORPORATE INFORMATION AND BASIS OF PREPARATION** *(continued)*

Basis of preparation *(continued)*

The accounting policies and methods of computation applied in the preparation of the First Quarterly Financial Statements are consistent with those applied in preparing the Annual Report except for the adoption of the accounting policy for associate as follows:

Associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but no control or joint control of those policies.

The Group's investment in associate is accounted for under the equity method of accounting, except when the investment or a portion thereof is classified as held for sale. Under the equity method, the investment is initially recorded at cost and adjusted thereafter for the post-acquisition changes in the Group's share of the investee's net assets and any impairment loss relating to the investment. Except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee, the Group discontinues recognising its share of further losses when the Group's share of losses of the investee equals or exceeds the carrying amount of its interest in the investee, which includes any long term interests that, in substance, form part of the Group's net investment in the investee.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investees, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture, any retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, on the loss of significant influence, the Group remeasures any retained interest in the former investee at fair value. The difference between the fair value of any retained investment and proceeds from disposing of the partial interest in the investee and the carrying amount of the investment at the date when significant influence is lost is recognised in profit or loss. In addition, all amounts previously recognised in other comprehensive income in respect of the former investee are accounted for on the same basis as would be required if the former investee had directly disposed of the related assets or liabilities. The fair value of the retained interest on the date of ceasing to be an associate is regarded as the fair value on initial recognition as a financial asset.

1. CORPORATE INFORMATION AND BASIS OF PREPARATION *(continued)*

Basis of preparation *(continued)*

The adoption of the new/revised HKFRSs that are relevant to the Group and effective from the current period had no significant effect on the results and financial position of the Group for the current and prior accounting periods.

At the date of authorisation of the First Quarterly Financial Statements, the Group has not early adopted any new/revised HKFRSs that have been issued but are not yet effective for the current period. The Directors have already commenced an assessment of the impact of these new and revised HKFRSs but are not yet in a position to reasonably estimate whether these new and revised HKFRSs would have a significant impact on the Group's results of operations and financial position.

2. REVENUE

Revenue, which represents transaction fee income and foreign exchange rate discount income from card acceptance business and sales income from cross-border e-commerce solution business, is analysed by category as follows:

	Unaudited Three months ended 30 June	
	2014 HK\$	2013 HK\$
Card acceptance transaction fee income	14,349,703	24,878,607
Foreign exchange rate discount income	3,614,842	7,605,406
Sales of goods from cross-border e-commerce solution business	57,031,225	–
	74,995,770	32,484,013

3. SEGMENT REPORTING

The Directors have been identified as the chief operating decision makers to evaluate the performance of operating segments and to allocate resources to those segments. Based on risks and returns and the Group's internal financial reporting, the Directors consider that the operating segments of the Group comprise:

- (i) card acceptance business in Thailand; and
- (ii) cross-border e-commerce solution business.

3. SEGMENT REPORTING *(continued)*

In addition, the Directors consider that the place of domicile of the Group is Hong Kong, where the central management and control is located.

Segment results, which are the measures reported to the chief operating decision makers for the purposes of resources allocation and assessment of segment performance, represent the profit earned or loss incurred by each segment without allocation of interest and other income, finance costs, general administrative expenses incurred by corporate office and income tax.

In determining the Group's geographical segments, revenue is attributed to the segments based on the location where services are provided. The geographical segment information is reflected within operating segment information as the Group's two distinctive business activities are provided in two different locations.

Three months ended 30 June 2014 (unaudited)

	Card acceptance business HK\$	Cross-border e-commerce solution business HK\$	Consolidated HK\$
Segment revenue	17,964,545	57,031,225	74,995,770
Segment results	3,395,577	5,026,714	8,422,291
Unallocated interest and other income			96,462
Unallocated finance costs			(9,340)
Unallocated other expenses			(8,329,099)
Share of results of an associate			(92,846)
Profit before taxation			87,468
Income tax expenses			(2,039,511)
Loss for the period			(1,952,043)

3. SEGMENT REPORTING *(continued)*

Three months ended 30 June 2013 (unaudited)

	Card acceptance business HK\$	Cross-border e-commerce solution business HK\$	Consolidated HK\$
Segment revenue	32,484,013	–	32,484,013
Segment results	8,367,778	–	8,367,778
Unallocated interest and other income			58,124
Unallocated finance costs			(9,596)
Unallocated other expenses			(3,240,494)
Profit before taxation			5,175,812
Income tax expenses			(1,948,960)
Profit for the period			3,226,852

4. PROFIT BEFORE TAXATION

	Unaudited Three months ended 30 June	
	2014 HK\$	2013 HK\$
This is stated after charging:		
Finance costs		
Finance costs on other long-term liabilities	9,340	9,596
Other items		
Cost of goods sold	48,972,090	–
Depreciation of property, plant and equipment	297,617	233,875
Staff costs, including directors' emoluments and equity-settled share-based payment expenses	3,914,331	1,457,109
Operating lease charges on premises	579,872	359,225

5. TAXATION

	Unaudited	
	Three months ended	
	30 June	
	2014	2013
	HK\$	<i>HK\$</i>
Current tax		
Hong Kong Profits Tax	829,300	–
Thailand Enterprise Income Tax	686,576	1,575,960
Withholding tax on dividend declared by a non-wholly owned subsidiary	899,635	–
Deferred tax		
Withholding tax on undistributed earnings of a non-wholly owned subsidiary	(376,000)	373,000
Income tax expenses for the period	2,039,511	1,948,960

(i) Hong Kong Profits Tax

Hong Kong Profits Tax has been provided at the rate of 16.5% on the Group's estimated assessable profits arising from Hong Kong for the period ended 30 June 2014. However, the Group had no assessable profits arising in or derived from Hong Kong for the period ended 30 June 2013.

(ii) Income taxes outside Hong Kong

The Company and those of its subsidiaries which were established in the British Virgin Islands ("BVI") are exempted from the payment of income tax in the Cayman Islands and the BVI respectively.

Oriental City Group (Thailand) Company Limited ("OCG Thailand") is subject to Thailand Enterprise Income Tax at 20% (2013: 20%).

5. TAXATION *(continued)*

(ii) **Income taxes outside Hong Kong** *(continued)*

Dividends payable by a foreign invested enterprise in the People's Republic of China (the "PRC") or Thailand to its foreign investors are subject to a 10% withholding tax, unless any foreign investor's jurisdiction of incorporation has a tax treaty with the PRC or Thailand that provides for a different withholding arrangement.

6. DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 30 June 2014 (2013: Nil).

7. LOSS PER SHARE

Basic loss per share for the three months ended 30 June 2014 is calculated based on the unaudited consolidated loss for the period attributable to the equity holders of the Company of HK\$3,233,885 (2013: HK\$8,358) and on the weighted average number of 843,428,571 ordinary shares (2013: 600,000,000 ordinary shares) in issue during the period.

Diluted loss per share is the same as basic loss per share as the effect of potential ordinary shares is anti-dilutive during the periods ended 30 June 2014 and 2013.

8. MOVEMENT OF EQUITY

	Attributable to equity holders of the Company								Non-controlling interests	Total equity
	Share capital	Share premium	Capital reserve	Exchange reserve	Statutory reserve	Share option reserve	Accumulated losses	Total		
	HK\$	HK\$	HK\$	HK\$	<Remark> HK\$	HK\$	HK\$	HK\$		
For the three months ended										
30 June 2014										
At 1 April 2014 (audited)	7,200,000	133,782,079	6,996,322	(664,782)	766,101	10,427,550	(24,052,981)	134,454,289	8,137,106	142,591,395
Loss for the period	-	-	-	-	-	-	(3,233,885)	(3,233,885)	1,281,842	(1,952,043)
Other comprehensive loss:										
Items that may be classified subsequent to profit or loss:										
Exchange difference on translation of foreign subsidiaries	-	-	-	(257,683)	-	-	-	(257,683)	98,833	(158,850)
Total comprehensive loss for the period	-	-	-	(257,683)	-	-	(3,233,885)	(3,491,568)	1,380,675	(2,110,893)
Transaction with owners:										
Contribution and distributions:										
Recognition of equity-settled share-based payment expenses	-	-	-	-	-	1,088,000	-	1,088,000	-	1,088,000
Share issue upon placing	1,440,000	203,266,741	-	-	-	-	-	204,706,741	-	204,706,741
Dividend paid to non-controlling interests of a non-wholly owned subsidiary	-	-	-	-	-	-	-	-	(5,055,957)	(5,055,957)
At 30 June 2014 (unaudited)	8,640,000	337,048,820	6,996,322	(922,465)	766,101	11,515,550	(27,286,866)	336,757,462	4,461,824	341,219,286

8. MOVEMENT OF EQUITY (continued)

	Attributable to equity holders of the Company							Total	Non-controlling interests	Total equity
	Share capital	Share premium	Capital reserve	Exchange reserve	Statutory reserve	Share option reserve	Accumulated losses			
	HK\$	HK\$	HK\$	HK\$	<Remark> HK\$	HK\$	HK\$			
For the three months ended 30 June 2013										
At 1 April 2013 (audited)	6,000,000	14,558,608	6,996,322	421,311	766,101	928,417	(13,428,372)	16,242,387	2,228,996	18,471,383
Profit for the period	-	-	-	-	-	-	(8,358)	(8,358)	3,235,210	3,226,852
Other comprehensive loss:										
Items that may be reclassified subsequently to profit or loss:										
Exchange difference on translation of foreign subsidiaries	-	-	-	(732,388)	-	-	-	(732,388)	(145,520)	(877,908)
Total comprehensive income for the period	-	-	-	(732,388)	-	-	(8,358)	(740,746)	3,089,690	2,348,944
Transaction with owners:										
Contribution and distributions:										
Recognition of equity-settled share-based payment expenses	-	-	-	-	-	214,250	-	214,250	-	214,250
Dividend paid to non-controlling interests of a non-wholly owned subsidiary	-	-	-	-	-	-	-	-	(1,059,869)	(1,059,869)
Change in ownership interests:										
Disposal of equity interest in a subsidiary	-	-	7,137,517	-	-	-	-	7,137,517	2,862,483	10,000,000
At 30 June 2013 (unaudited)	6,000,000	14,558,608	14,133,839	(311,077)	766,101	1,142,667	(13,436,730)	22,853,408	7,121,300	29,974,708

<Remark>

In accordance with the relevant laws and regulations in Thailand, OCG Thailand is required to appropriate not less than 5% of its net profit to the statutory reserve upon each dividend distribution, until the statutory reserve reaches 10% of its registered authorised capital. The statutory reserve is not available for dividend distribution.

9. SHARE OF RESULTS OF AN ASSOCIATE

Pursuant to the capital injection agreement signed on 20 March 2014, during the three months ended 30 June 2014, the Group injected RMB20 million (equivalent to approximately HK\$25 million) into 上海商酷網絡科技有限公司 (Shanghai Koolcloud Technology Company Limited, “Shanghai Koolcloud”, its English translation is for identification purpose only), which represented 22.22% of the enlarged registered capital of Shanghai Koolcloud, a limited company incorporated in the PRC and is a manufacturer and operator of leading smart point-of-sale terminal technology.

Due to the fact that the Group is able to exercise significant influence on Shanghai Koolcloud, the Group classified Shanghai Koolcloud as an associate and accounted for the investment under equity accounting method.

The Group’s share of losses of Shanghai Koolcloud for the three months ended 30 June 2014 was HK\$92,846.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the three months ended 30 June 2014 (the “Review Period”), there was political instability in Thailand, leading to the decrease in the revenue from the Group’s card acceptance business in Thailand. However, the Group has entered into a new business, namely cross-border e-commerce solution business, during the Review Period and with the introduction of such new business, revenue for the Review Period increased significantly when compared with the record in the corresponding period of last year. The cross-border e-commerce solution business provided one-stop solution to connect the PRC e-commerce merchants with overseas buyer and covered all aspects of international e-commerce, including products sourcing and distribution, cross-border payment, logistics packaging, human resources outsourcing, advertising, brand management etc, such business was newly acquired by the Group in early 2014. Further, the Group made an investment in an associate in March 2014 which is a manufacturer and operator of cutting-edge smart point-of-sales terminal technology. As such, there was a share of associate’s results reflected in the Group’s financial statement during the Review Period.

Business Outlook

Leveraging its core business in electronic payment, trading and settlement platforms, the Group has been continuously exploring new business opportunities in order to improve the Group’s future operating results and enhance the competitiveness.

The Group will gradually shift the strategic focus to payment business in the PRC (the “PRC payment business”). The Group will base the PRC payment business on prepaid payment, internet payment, mobile payment and online-offline services. The PRC payment business will ultimately enable the Group to build a large-scale real-name customer information database and to offer comprehensive personal financial services to the customers.

Financial Review

During the Review Period, revenue generated by the Group was amounted to approximately HK\$75.00 million, representing an increase of approximately 131% from the record of the same period of last year. Among the total revenue, approximately HK\$17.96 million was generated from the card acceptance business in Thailand. Due to the political instability during the Review Period, revenue from the card acceptance business decreased by approximately HK\$14.52 million, as compared with that of for the three months ended 30 June 2013. The revenue generated from the cross-border e-commerce solution business for the Review Period amounted to approximately HK\$57.03 million, representing approximately 76% of the total revenue.

The gross profit for the Review Period amounted to approximately HK\$12.94 million, representing an increase of approximately 31% from the same as recorded during the corresponding period of last year. Gross profit from the card acceptance business and the cross-border e-commerce solution business amounted to approximately HK\$4.88 million and approximately HK\$8.06 million respectively.

The general administrative expenses of the Group during the Review Period were approximately HK\$12.33 million, increased by approximately HK\$7.78 million as compared with the same recorded in the corresponding period of last year. The increase was primarily attributable to the increase in salary expenses due to the recruitment of payment industry professionals as part of the Group's strategy to develop the prepaid payment business in the PRC.

The selling and distribution costs during the Review Period amounted to approximately HK\$0.52 million, representing an increase of approximately HK\$0.30 million compared with the same recorded in the corresponding period of last year. The increase was resulting from the increase in staff costs for the marketing team in Thailand.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2014, the interests 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 (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 and short positions which they were taken or deemed to have under such provisions of the SFO), or were required pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

(a) Long positions in ordinary shares of HK\$0.01 each of the Company ("Shares")

Name	Capacity	Number of Shares	Percentage of shareholding
Mr. Cheng Nga Ming Vincent ("Mr. Cheng")	Corporate – Interest of controlled corporation (Note 1)	174,500,000	20.20%
Mr. Cao Guoqi ("Mr. Cao")	Corporate – Interest of controlled corporation (Note 2)	51,270,000	5.93%
	Beneficial owner (Note 4)	6,000,000	0.69%
	Interest of spouse (Note 3)	770,000	0.09%
Mr. Fung Weichang ("Mr. Fung")	Beneficial owner (Note 4)	2,000,000	0.23%
Mr. Zhang Huaqiao ("Mr. Zhang")	Beneficial owner (Note 4)	6,000,000	0.69%

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN THE SHARES, UNDERLYING SHARES AND DEBENTURES *(continued)*

(a) Long positions in ordinary shares of HK\$0.01 each of the Company ("Shares") *(continued)*

- Note:*
1. These Shares were held by Tian Li Holdings Limited ("Tian Li") which in turn is owned as to 70% and 30% by Mr. Cheng and Ms. Cheng Nga Yee ("Ms. Cheng") respectively. Ms. Cheng is the sister of Mr. Cheng. As Mr. Cheng is the controlling shareholder of Tian Li, he is deemed to be interested in these Shares held by Tian Li under the SFO.
 2. These 51,270,000 Shares were held by Probest Limited ("Probest") which in turn is wholly owned by Mr. Cao. As Mr. Cao is the controlling shareholder of Probest, he is deemed to be interested in these 51,270,000 Shares held by Probest under the SFO.
 3. These 770,000 Shares were held by Ms. Zheng Lu who is the wife of Mr. Cao. Accordingly, Mr. Cao is deemed to be interested in these 770,000 Shares under the SFO.
 4. These Shares represent the options of shares granted to Mr. Cao, Mr. Fung and Mr. Zhang pursuant to the Company's share option scheme. Accordingly, they are deemed to be interested in these Shares under the SFO.

(b) Associated corporations

As at 30 June 2014, Ms. Cheng held 30% equity interests in Tian Li. Ms. Cheng retired by rotation as an executive Director of the Company with effect from 25 July 2014.

Save as disclosed above, as at 30 June 2014, so far as is known to any Directors or chief executive of the Company, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of part XV of 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 and short positions which they were taken or deemed to have under such provisions of the SFO), or were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the Review Period, the Directors and the chief executive of the Company (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares (or warrants or debentures, if applicable) of the Company and/or its associated corporations (within the meaning of the SFO).

Save as disclosed above and in the share option scheme of the Company, at no time during the Review Period was the Company, any of its subsidiaries, its associated companies, its fellow subsidiaries or its holding companies a party to any arrangements to enable the Directors or the chief executive of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company and/or its associated corporations (within the meaning of the SFO).

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES DISCLOSEABLE UNDER THE SFO

As at 30 June 2014, so far as is known to the Directors, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 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:

The Company

Long positions in Shares

Name	Capacity	Number of Shares	Percentage of shareholding
Tian Li (<i>Note 1</i>)	Beneficial owner	174,500,000	20.20%
Probest (<i>Note 2</i>)	Beneficial owner	51,270,000	5.93%

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES DISCLOSEABLE UNDER THE SFO *(continued)*

The Company *(continued)*

Long positions in Shares (continued)

Save as disclosed above, as at 30 June 2014, according to the register of interests required to be kept by the Company under section 336 of the SFO, there was no person who had any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

- Note:
1. Tian Li is a company owned as to 70% and 30% by Mr. Cheng and Ms. Cheng respectively. Ms. Cheng is the sister of Mr. Cheng. As Mr. Cheng is the controlling shareholder of Tian Li, he is deemed to be interested in these Shares held by Tian Li under the SFO. Mr. Cheng is a director of Tian Li.
 2. Probest is a company wholly owned by Mr. Cao. As Mr. Cao is the controlling shareholder of Probest, he is deemed to be interested in the 51,270,000 Shares held by Probest under the SFO. Mr. Cao is a director of Probest.

COMPETING INTERESTS

During the Review Period, none of the Directors or the controlling shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) had an interest in any business which competes or may competes, either directly or indirectly, with the business of the Group nor any conflicts of interest which has or may have with the Group.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Review Period.

CORPORATE GOVERNANCE CODE

The Company is governed by the Board, which is responsible for overseeing the overall strategy and development of the Company, as well as monitoring the internal control policies and evaluating the financial performance of the Group. The Board sets the overall strategies and directions for the Group with a view to developing its business and enhancing its corporate value. Major corporate matters that are specifically delegated by the Board to the management include the preparation of annual and interim accounts for approval by the Board before publication, execution of business strategies and initiatives adopted by the Board, implementation of adequate internal control systems and risk management procedures, and compliance with relevant statutory requirements and rules and regulations. During the Review Period, the Company has complied with all the code provisions as set out in Appendix 15 to the GEM Listing Rules.

Besides, as part of the corporate governance practices, the Board has established a nomination committee, a remuneration committee, an audit committee, an internal control committee and a compliance committee. The Board is responsible for developing and reviewing the Group's policies and practices on corporate governance and reviewing and monitoring the training and continuous professional development of our Directors. The internal control committee is vested with the responsibility of reviewing and monitoring the training and continuous professional development of the Group's senior management whilst the compliance committee is responsible for developing, reviewing and monitoring the code of conduct applicable to our Directors and the Group's employees and reviewing the Company's compliance with Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules and the disclosure in the Company's Corporate Governance Report.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard of dealings as set out in Rules 5.46 to 5.67 of the GEM Listing Rules as the code of conduct regarding the Directors' securities transactions in securities of the Company. Having made specific enquiry of all Directors, each of the Directors has confirmed that he has complied with the required standard of dealings as set out in the adopted code of conduct regarding Directors' securities transactions from 1 April 2014 to 30 June 2014.

AUDIT COMMITTEE

The Company has established an audit committee (the “Audit Committee”) with written terms of reference in compliance with the GEM Listing Rules. The Audit Committee comprises Dr. Yuan Shumin, Mr. Lu Dongcheng and Mr. Wang Yiming, all of whom are independent non-executive Directors. Dr. Yuan Shumin has been appointed as the chairman of the Audit Committee.

The primary responsibilities of the Audit Committee are (i) to review the annual report and accounts, half yearly reports and quarterly reports and provide advice, comments thereon to the Board and (ii) review and supervise the financial reporting process and internal control system of the Group.

The Group’s unaudited quarterly results for the three months ended 30 June 2014 have been reviewed by the Audit Committee, which was of the opinion that such results complied with the applicable accounting standards, the GEM Listing Rules and legal requirements, and that adequate disclosures had been made.

On behalf of the Board

Zhang Huaqiao

Chairman

Hong Kong, 14 August 2014

As at the date of this report, the Board comprises (i) four executive directors, namely, Mr. Cheng Nga Ming Vincent, Mr. Cao Guoqi, Mr. Fung Weichang and Mr. Xiong Wensen; (ii) one non-executive director, namely, Mr. Zhang Huaqiao; and (iii) three independent non-executive directors, namely, Mr. Wang Yiming, Mr. Lu Dongcheng and Dr. Yuan Shumin.