

CHINA CHIEF CABLE TV GROUP LIMITED

(Incorporated in Bermuda with limited liability)

Websites: <http://www.m21.com.hk>

(Stock Code: 8153)



INTERIM REPORT 2006

Six months ended
30 September 2006

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This report, for which the directors (the “Directors”) of China Chief Cable TV Group Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities (“GEM Listing Rules”) on the Growth Enterprise Market of the Stock Exchange 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: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

INTERIM RESULTS

The board of directors (the "Board") of China Chief Cable TV Group Limited (the "Company") present the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the three months and six months ended 30 September 2006 (the "Relevant Periods") together with the comparative unaudited figures for the corresponding periods in 2005 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three months and six months ended 30 September 2006

	Note	Unaudited Three months ended 30 September		Unaudited Six months ended 30 September	
		2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Turnover	2	3,471	4,104	6,573	7,335
Cost of sales		(2,722)	(3,721)	(5,712)	(6,577)
Gross profit		749	383	861	758
Other revenue		17	468	43	906
General, administrative and other expenses		(3,884)	(5,542)	(7,581)	(10,461)
Loss from operations	3	(3,118)	(4,691)	(6,677)	(8,797)
Finance costs	4	(874)	(780)	(1,719)	(1,499)
Loss attributable to shareholders		(3,992)	(5,471)	(8,396)	(10,296)
Basic loss per share	7	(1.28 cents)	(1.75 cents)	(2.69 cents)	(3.29 cents)

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September 2006 and 31 March 2006

	Note	Unaudited 30 September 2006 HK\$'000	Audited 31 March 2006 HK\$'000
Non-current assets			
Fixed assets	8	17,601	20,910
Intangible assets		5,767	5,473
		<u>23,368</u>	<u>26,383</u>
Current assets			
Inventories		1,385	1,465
Accounts receivable	9	5,615	6,416
Other receivables and deposits	10	31,474	31,554
Bank balances and cash		526	598
		<u>39,000</u>	<u>40,033</u>
Current liabilities			
Accounts payable	11	1,018	1,075
Other payables and accrued charges		7,365	6,179
Amounts due to related companies		6,743	5,625
Amount due to a director		3,065	2,465
Bank and other loans		30,538	10,482
		<u>48,729</u>	<u>25,826</u>
Net current (liabilities)/assets		<u>(9,729)</u>	<u>14,207</u>
Total assets less current liabilities		<u>13,639</u>	<u>40,590</u>
Non-current liabilities			
Deferred tax liabilities		643	643
Bank and other loans		25,799	44,354
		<u>26,442</u>	<u>44,997</u>
Net liabilities		<u>(12,803)</u>	<u>(4,407)</u>
Capital and reserves			
Share capital	12	3,125	3,125
Reserves		(15,928)	(7,532)
		<u>(12,803)</u>	<u>(4,407)</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2006

	Share capital HK\$'000	Share premium HK\$'000	Accumulated losses HK\$'000	Merger reserve HK\$'000	Share-based payment reserve HK\$'000	Exchange reserve HK\$'000	Total HK\$'000
At 1 April 2005, as previously reported	3,125	27,783	(20,643)	(197)	—	—	10,068
Prior period adjustment arising from change in accounting policy	—	—	—	—	6,000	—	6,000
as restated	3,125	27,783	(20,643)	(197)	6,000	—	16,068
Loss for the period	—	—	(10,296)	—	—	—	(10,296)
At 30 September 2005	<u>3,125</u>	<u>27,783</u>	<u>(30,939)</u>	<u>(197)</u>	<u>6,000</u>	<u>—</u>	<u>5,772</u>
At 1 April 2006	3,125	27,783	(41,320)	(197)	6,000	202	(4,407)
Loss for the period	—	—	(8,396)	—	—	—	(8,396)
At 30 September 2006	<u>3,125</u>	<u>27,783</u>	<u>(49,716)</u>	<u>(197)</u>	<u>6,000</u>	<u>202</u>	<u>(12,803)</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2006

	Unaudited Six months ended 30 September	
	2006 HK\$'000	2005 HK\$'000
Net cash outflow from operating activities	(804)	(4,538)
Net cash used in investing activities	(769)	(1,099)
Net cash from financing activities	<u>1,501</u>	<u>5,807</u>
Net (decrease)/increase in cash and cash equivalents	(72)	170
Cash and cash equivalents at 1 April	<u>598</u>	<u>1,701</u>
Cash and cash equivalents at 30 September	<u><u>526</u></u>	<u><u>1,871</u></u>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	<u><u>526</u></u>	<u><u>1,871</u></u>

Notes:

1. Basis of preparation and principal accounting policies

The condensed consolidated interim accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention.

The accounting policies and methods of computation adopted in the preparation of these unaudited consolidated accounts are consistent with those set out in the annual financial statements for the year ended 31 March 2006. The Consolidated results are unaudited but have been reviewed by the Company's audit committee.

2. Segment information

The Group is principally engaged in the provision of pre-mastering and other media services, the provision of audiovisual playout services in Hong Kong and the development of digital television system platform and provision of related service, sales and rental of set-top boxes, development of program database, design and manufacture of digital television equipment and facilities in the People's Republic of China ("PRC") (collectively known as "TV digitalisation related services").

Primary report format — business segments

The Group is organised into three main business segments:

- Provision of pre-mastering and other media services — include editing, authoring and digitalisation of audiovisual data processes;
- Provision of audiovisual playout services on audiovisual data; and
- Provision of TV digitalisation related services — development of digital set-top boxes and the system platform for digital TV network and provision of digitalisation related technical support services.

There are no sales or other transactions between the business segments.

Secondary report format — geographical segments

The Group's three business segments operated in two main geographical areas:

- Hong Kong — provision of pre-mastering and other media services and provision of audiovisual playout services;
- PRC — development of digital television system platform and provision of related services, sales and rental of set-top boxes, development of program database, design and manufacture of digital television equipment and facilities.

There are no sales between the geographical segments.

Business Segment

	Unaudited Six months ended 30 September							
	Provision of Pre-mastering and other media services		Provision of audiovisual playout services		Provision of TV digitalisation related services		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	4,227	4,606	2,256	2,388	90	341	6,573	7,335
Segment results	500	1,108	(268)	20	(3,792)	(5,807)	(3,560)	(4,679)
Unallocated expenses							(3,117)	(4,118)
Loss from operations							(6,677)	(8,797)
Finance costs							(1,719)	(1,499)
Loss before taxation							(8,396)	(10,296)
Loss attributable to shareholders							(8,396)	(10,296)
Capital expenditure	160	92	85	105	224	20	469	217
Unallocated capital expenditure							3	45
							472	262
Depreciation	905	886	900	877	1,976	1,487	3,781	3,250
Unallocated depreciation							—	—
							3,781	3,250
	Unaudited As at 30 September	Audited As at 31 March	Unaudited As at 30 September	Audited As at 31 March	Unaudited As at 30 September	Audited As at 31 March	Unaudited As at 30 September	Audited As at 31 March
	Provision of Pre-mastering and other media services		Provision of audiovisual playout services		Provision of TV digitalisation related services		Total	
	2006	2006	2006	2006	2006	2006	2006	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	8,341	10,005	3,832	3,536	44,297	46,163	56,470	59,704
Unallocated assets							5,898	6,712
Total assets							62,368	66,416
Segment liabilities	1,091	1,087	328	374	62,694	58,348	64,113	59,809
Unallocated liabilities							11,058	11,014
Total liabilities							75,171	70,823

Geographical segments

	Turnover HK\$'000	Unaudited Six months ended 30 September 2006 Segment results HK\$'000	Capital expenditure HK\$'000	Unaudited As at 30 September 2006 Segment assets HK\$'000
Hong Kong	6,483	232	248	18,071
PRC	90	(3,792)	224	44,297
	<u>6,573</u>	<u>(3,560)</u>	<u>472</u>	<u>62,368</u>
Unallocated income		—		
Unallocated costs		(3,117)		
Loss from operations		<u>(6,677)</u>		
	Turnover HK\$'000	Unaudited Six months ended 30 September 2005 Segment results HK\$'000	Capital expenditure HK\$'000	Audited As at 31 March 2006 Segment assets HK\$'000
Hong Kong	6,994	1,128	242	20,254
PRC	341	(5,807)	20	46,162
	<u>7,335</u>	<u>(4,679)</u>	<u>262</u>	<u>66,416</u>
Unallocated income		—		
Unallocated costs		(4,118)		
Loss from operations		<u>(8,797)</u>		

3. **Loss from operating activities**

Loss from operating activities is stated after charging the following:

	Unaudited Six months ended 30 September 2006 HK\$'000	2005 HK\$'000
Cost of inventories sold	2,323	2,696
Depreciation	3,781	3,250
Amortisation of film rights	—	532
Amortisation of club membership	3	3
	<u>6,107</u>	<u>6,481</u>

4. **Finance costs**

	Unaudited Six months ended 30 September 2006 HK\$'000	2005 HK\$'000
Interest expenses on borrowings wholly repayable within five years	1,719	1,499
	<u>1,719</u>	<u>1,499</u>

5. **Staff costs**

	Unaudited Six months ended 30 September 2006 HK\$'000	2005 HK\$'000
Wages and salaries	4,663	5,065
Pension costs — defined contribution plans	140	131
	<u>4,803</u>	<u>5,196</u>

6. **Taxation**

No provision for Hong Kong profits tax and PRC enterprise income tax have been made as the Group had no estimated assessable profit during the three months and six months ended 30 September 2006 (2005: Nil).

7. **Loss per share**

The calculation of basic loss per share for the three months and six months ended 30 September 2006 was based on the Group's loss attributable to shareholders of approximately HK\$3,992,000 and HK\$8,396,000 respectively (2005: approximately HK\$5,471,000 and HK\$10,296,000) and on 312,500,000 (2005: 312,500,000) ordinary shares in issue during the periods.

No diluted loss per share for 2006 and 2005 has been presented, as the exercise of the outstanding share options of the Company during the three months and six months ended 30 September 2006 and 2005 would result in reducing loss per share.

8. Capital expenditure

	Film rights HK\$'000	Club membership HK\$'000	Fixed assets HK\$'000
Six months ended 30 September 2006			
Opening net book amount	1,309	157	20,910
Additions	296	—	472
Amortisation/depreciation charge	—	(3)	(3,781)
Closing net book amount	<u>1,605</u>	<u>154</u>	<u>17,601</u>

9. Accounts receivable

The Group's credit term granted to trade debtors generally ranges from 30 to 90 days. At 30 September 2006, details of the ageing analysis of accounts receivable were as follows:

	Unaudited 30 September 2006 HK\$'000	Audited 31 March 2006 HK\$'000
Current	1,329	2,507
31—60 days	710	356
61—90 days	871	186
Over 90 days	<u>2,705</u>	<u>3,367</u>
	<u>5,615</u>	<u>6,416</u>

10. Other receivables and deposits

Included in the balance is a deposit of HK\$25,000,000 (31st March 2006: HK\$25,000,000) paid for the purchase of Cable TV set top boxes in relation to the TV digitalisation network operations.

11. Accounts payable

Details of the ageing analysis of accounts payable were as follows:

	Unaudited 30 September 2006 HK\$'000	Audited 31 March 2006 HK\$'000
Current	260	229
31—60 days	100	93
Over 60 days	<u>658</u>	<u>753</u>
	<u>1,018</u>	<u>1,075</u>

12. Share capital

	Unaudited 30 September 2006 HK\$'000	Audited 31 March 2006 HK\$'000
<i>Authorised</i> 700,000,000 ordinary shares of HK\$0.01 each	<u>7,000</u>	<u>7,000</u>
<i>Issued and fully paid</i> 312,500,000 ordinary shares of HK\$0.01 each	<u>3,125</u>	<u>3,125</u>

13. Capital Commitments

At 30 September 2006, the Group had capital commitments in respect of the following:

	Unaudited 30 September 2006 HK\$'000	Audited 31 March 2006 HK\$'000
Authorised but not contracted for: Hunan Cable TV digitalisation network system	30,322	30,322
Contracted for but not provided for: Hunan Cable TV digitalisation network system	<u>7,368</u>	<u>7,368</u>
	<u>37,690</u>	<u>37,690</u>

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months and six months ended 30 September 2006 (2005: Nil).

FINANCIAL AND BUSINESS REVIEW

For the six months ended 30 September 2006, the Group recorded a turnover of approximately HK\$6,573,000 (2005: approximately HK\$7,335,000). The decrease was mainly due to the demand of pre-mastering and post-production services from Pay TV channels has slightly decreased.

Income from pre-mastering and other media services ("Media Services") accounted for approximately 64% (2005: approximately 63%) of the Group's turnover. There was no new Pay TV channel launched during this period. Thus, the demand for Media Services has slightly decreased. Income from the provision of audiovisual playout services ("Playout Services") accounted for approximately 34% (2005: approximately 33%) of the Group's turnover. In August 2006, two channels were terminated which lead to the drop in Playout Services income.

Income from provision of TV digitalisation related services, amounted to approximately HK\$90,000 (2005: approximately HK\$341,000). Such business has been launched since the fourth quarter of 2004 and the income will be increased as a result of the process of launching digital television network across the PRC by the PRC government.

The Group generated a gross profit of approximately HK\$861,000 (2005: approximately HK\$758,000) out of a total turnover of approximately HK\$6,573,000 (2005: approximately HK\$7,335,000). The gross profit margin was increased from 10% in 2005 to 13% in the current period, mainly due to the fact that certain direct costs such as repair and maintenance expenses decreased.

During the period under review, the loss attributable to shareholder was approximately HK\$8,396,000 (2005: approximately HK\$10,296,000). Such loss was mainly attributable to the provision of TV digitalisation related services whose business is still in its development stage and requires heavy investment, including machinery, network and manpower. However, the Directors believe that such loss will be diminished with a view to the gradual but finally complete roll out of digital television network across the PRC.

BUSINESS PURSUITS AND PROSPECTS

The Group acquired a new business for the provision of TV digitalisation related services in August 2004 in order to expand its business scope in the PRC and grabbed the opportunities of network digitalisation in the PRC. At present, the PRC government is in the process of launching the digital television network to completely phase out the prevailing analog television network gradually across the country by Year 2015. It is expected that from 2005 to 2008, the cable television networks in the direct-controlled cities and provinces in the eastern, middle and western parts of the PRC (including Hunan Province) will be digitalised. With such large hinterland, immense population, encouraging government policy, the management are optimistic and confident about the future of the digital television market in PRC.

Hunan TV, the authorised digital television network operator in Hunan Province, owns and operates a fibre optic trunk network covering 14 major districts in Hunan (the "First Tier Network"). The First Tier Network is connected to fibre optic trunk networks in 108 cities and counties in Hunan (the "Second Tier Network"). The First Tier Network and the Second Tier Network together form a province-wide cable television network in Hunan, covering over 4 million households in the territory which is the source of income by virtue of sharing of the subscription fee from these households with Hunan TV after deducting a fee to Second Tier Network Operators. In order to provide digital television services to subscribers, the Second Tier Network Operators must enter into agreement with Hunan TV on the sharing of subscription fee. As required by the circular dated 4 November 2004, the number of Second Tier Network Operators who has not yet reached agreement with Hunan TV is 81 as at the date of this report.

The pricing of the set-top boxes was approved by the relevant authority. The Group has placed orders to meet the requirement of set-top boxes and the completion of the digitalization system is now pending for installation of certain converter. In order to enlarge the audience base and increase popularity, we are exploring opportunities to enrich the content of programs for the channels. On the other hand, we are waiting for the process of the network restructure throughout the province by the relevant authority. Management expects that after the process of the network restructuring, the number of the subscribers will then increase progressively.

Due to the complete success in the Hong Kong market, the Group has considered the feasibility of managing playout channels in the South East Asia countries (especially those with large Chinese-related population) and the Group is now managing a playout channel in Malaysia. The channel was running smoothly since then. This encouraging start has further strengthen the confidence of the Group on targeting the South East Asia market.

As the Pay TV market has been getting more complicated with the emergence of broadband network, the demand for audiovisual contents as well as its quality increases dramatically. The management believed that it is a good opportunity to capitalise on its expertise and experience in audiovisual technology, and to pursue the concept of providing media service as a whole. In fact, the Group's capacity of media service and digitised platform is near saturation. Therefore, the Group is considering to further invest in related servers and equipment to satisfy such growing demand.

The Group will continue to endeavour its best effort in keeping its established brand in Hong Kong and will also adopt an positive approach towards the bright digital television market in the PRC.

LIQUIDITY AND FINANCIAL RESOURCES

The group used to finance its operation using internally generated cashflows. However, the acquisition of Sky Dragon and the related capital investments in certain digital television equipments and machineries, together with the increased number of playout channels induce the need for certain debt financing. Therefore, as at 30 September 2006, the Group has unsecured external borrowing of approximately HK\$55,837,000 and secured borrowing of HK\$500,000 which is secured by the Group's certain fixed assets with net book value of approximately HK\$3,932,000. In turn, the gearing ratio became 90% (2005: 83%) based on the total bank and other loans of approximately HK\$56,337,000 and the total assets of HK\$62,368,000.

The Group's bank balances and borrowings are denominated in Hong Kong dollars and Renminbi and the Group has no significant exposure to foreign currency fluctuations.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 September 2006.

EMPLOYEE INFORMATION

As at 30 September 2006, the Group had 98 full-time employees. Employee costs, including directors' emoluments for the period amounted to approximately HK\$4,803,000. Remuneration is reviewed annually and employees are rewarded on a performance related basis. In addition to the basic salaries, a wide range of benefits, including medical coverage, provident funds, training and development programmes and long service awards are also provided on an ongoing basis to employees of the Group. The Group has a share option scheme whereby qualified employees may be granted options to acquire shares of the Company.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 September 2006, the interests and short positions of the directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Future Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company were as follows:

(a) Ordinary shares of HK\$0.01 each in the Company

Name of directors	Personal interests	Corporate interests	Other interests
Mr. TONG Hing Chi	7,812,500	—	—
Mr. LAW Kwok Leung	7,812,500	80,000,000 (note (a))	—
Mr. CHAN Kwok Sun, Dennis	—	—	80,000,000 (note (a))
Mr. FENG Xiao Ping	—	31,718,750 (note (b))	—

Notes:

- (a) 80,000,000 shares are held by Sino Regal Holding Limited ("SRH"), a company in which Mr. LAW Kwok Leung and Mr. CHAN Kwok Sun, Dennis have an equity interests of 70% and 30% therein respectively.
- (b) 31,718,750 shares are held by Sino Unicorn Technology Limited ("Sino Unicorn"), a company in which Mr. FENG Xiao Ping has an indirect interest of 51% therein.

(b) Share option

In January 2005, the Group has granted an option ("Option") to Sky Dragon Digital Television and Movies Holdings Limited ("Sky Dragon") to subscribe for 30 million shares of the Company at an exercise price of HK\$0.788 per share, Sky Dragon is 99% indirectly owned by Mr. Feng Xiao Ping. None of the Option has been exercised since granted.

Save as disclosed above, the directors do not have any interests or short positions in the shares of the Company.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 30 September 2006, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital.

Name of shareholders	Number of shares	Percentage of share capital (%)
SRH	80,000,000	25.60
Sino Unicorn	31,718,750	10.15
Random Services Limited ("Random Services") (note (a))	31,718,750	10.15
Yang Fuguang (note (a))	31,718,750	10.15

Note:

- (a) Sino Unicorn is 51% and 49% owned by Random Services and Yang Fuguang respectively. The shares referred to herein relate to the same parcel of shares held by Sino Unicorn.

Save as disclosed above and "Directors' and Chief Executives' interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation", the Company had no notice of any interests and short positions to be recorded under Section 336 of the SFO as at 30 September 2006.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its listed securities during the three months and six months ended 30 September 2006. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the three months and six months ended 30 September 2006.

CORPORATE GOVERNANCE PRACTICES

The Company applied the principles and complied with all the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the period under review, with the exception of the deviation in respect of the appointment term of non-executive directors.

Under code provision A4.1, non-executive directors should be appointed for specific term, There is no specific term of appointment of the non-executive directors of the Company, however, they are subject to retirement by rotation in accordance with Bye-law of the Company. Accordingly the Company considers that sufficient measures have been taken to dealt with the requirement in respect of the appointment terms of non-executive directors as required under the code provision.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the period under review, the Company continued to adopt a code of conduct regarding securities transactions by 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. The Company had also made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by the Directors.

COMPETING BUSINESS

None of the directors or management shareholders of the Company (as defined in the GEM Listing Rules) has an interest in a business which compete or may compete with the business of the Group.

AUDIT COMMITTEE

The Company has established an audit committee comprising three independent non-executive directors and has adopted the terms of reference governing the authority and duties of the audit committee. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control of the Group. This report has been reviewed by the audit committee.

As of the date of this report, the executive directors of the Company are Mr. Tong Hing Chi, Mr. Law Kwok Leung and Mr. Feng Xiao Ping, the non-executive director is Mr. Chan Kwok Sun, Dennis and the independent non-executive directors are Mr. Sousa Richard Alvaro, Mr. Chang Carl and Mr. Ngai Wai Fung.

On Behalf of the Board
Tong Hing Chi
Chairman

Hong Kong, 13 November 2006