

# **CHINA CHIEF CABLE TV GROUP LIMITED**

(Incorporated in Bermuda with limited liability)

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

**(Stock code: 8153)**



## **INTERIM REPORT 2007**

Three months and Six months ended  
30 September 2007

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. 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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid reports in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

*The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.*

*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 2007 (the "Relevant Periods") together with the comparative unaudited figures for the corresponding periods in 2006 as follows:

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three months and six months ended 30 September 2007

	Note	Unaudited Three months ended 30 September		Unaudited Six months ended 30 September	
		2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Turnover	2	3,197	3,471	5,984	6,573
Cost of sales		(2,507)	(2,722)	(5,913)	(5,712)
Gross profit		690	749	71	861
Other revenue		330	17	349	43
General, administrative and other expenses		(3,688)	(3,884)	(7,177)	(7,581)
Loss from operations	3	(2,668)	(3,118)	(6,757)	(6,677)
Finance costs	4	(32)	(874)	(955)	(1,719)
Loss attributable to shareholders		(2,700)	(3,992)	(7,712)	(8,396)
Basic loss per share	7	(0.72 cents)	(1.28 cents)	(2.23 cents)	(2.69 cents)
Diluted loss per share	7	(0.70 cents)	N/A	(2.19 cents)	N/A

### CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September 2007 and 31 March 2007

	Note	Unaudited 30 September 2007 HK\$'000	Audited 31 March 2007 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	8	12,176	15,009
Intangible assets		5,195	5,206
		17,371	20,215
<b>Current assets</b>			
Inventories		1,637	1,441
Accounts receivable	9	3,771	5,042
Other receivables and deposits		35,684	31,223
Bank balances and cash		27,308	296
		68,400	38,002
<b>Current liabilities</b>			
Accounts payable	10	831	1,182
Other payables and accrued charges		10,261	8,699
Amounts due to related companies		8,196	7,552
Amount due to a director		4,265	3,665
Bank and other loans		11,396	52,487
		34,949	73,585
<b>Net current assets/(liabilities)</b>		33,451	(35,583)
<b>Total assets less current liabilities</b>		50,822	(15,368)
<b>Non-current liabilities</b>			
Bank and other loans		2,610	6,150
<b>Net assets/(liabilities)</b>		48,212	(21,518)
<b>Capital and reserves</b>			
Share capital	11	3,850	3,125
Reserves		44,362	(24,643)
		48,212	(21,518)

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2007

	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 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>
At 1 April 2007	3,125	27,783	(58,381)	(197)	6,000	152	(21,518)
Issue of shares, net of expenses	725	76,717	—	—	—	—	77,442
Loss for the period	—	—	(7,712)	—	—	—	(7,712)
At 30 September 2007	<u>3,850</u>	<u>104,500</u>	<u>(66,093)</u>	<u>(197)</u>	<u>6,000</u>	<u>152</u>	<u>48,212</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2007

	Unaudited Six months ended 30 September	
	30 September 2007 HK\$'000	31 March 2006 HK\$'000
Net cash outflow from operating activities	(5,630)	(804)
Net cash used in investing activities	(169)	(769)
Net cash from financing activities	<u>32,811</u>	<u>1,501</u>
Net increase/(decrease) in cash and cash equivalents	<u>27,012</u>	<u>(72)</u>
Cash and cash equivalents at 1 April	<u>296</u>	<u>598</u>
Cash and cash equivalents at 30 September	<u>27,308</u>	<u>526</u>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	<u>27,308</u>	<u>526</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 2007. 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	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Turnover	4,332	4,227	1,585	2,256	67	90	5,984	6,573
Segment results	(865)	500	(317)	(268)	(1,749)	(3,792)	(2,931)	(3,560)
Unallocated expenses							(3,826)	(3,117)
Loss from operations							(6,757)	(6,677)
Finance costs							(955)	(1,719)
Loss attributable to shareholders							(7,712)	(8,396)
Capital expenditure	572	160	210	85	—	224	782	469
Unallocated capital expenditure							—	3
							782	472
Depreciation	1,355	905	496	900	1,151	1,976	3,002	3,781
	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	
	2007 HK\$'000	2007 HK\$'000	2007 HK\$'000	2007 HK\$'000	2007 HK\$'000	2007 HK\$'000	2007 HK\$'000	2007 HK\$'000
Segment assets	12,743	6,797	4,662	3,080	13,910	42,317	31,315	52,194
Unallocated assets							54,456	6,023
Total assets							85,771	58,217
Segment liabilities	901	1,263	329	292	36,005	67,808	37,235	69,363
Unallocated liabilities							324	10,372
Total liabilities							37,559	79,735

Geographical segments

		Unaudited Six months ended 30 September 2007	Capital expenditure HK\$'000	Unaudited As at 30 September 2007
	Turnover HK\$'000	Segment results HK\$'000		Segment assets HK\$'000
Hong Kong	5,917	(1,182)	782	71,861
PRC	67	(1,749)	—	13,910
	<u>5,984</u>	<u>(2,931)</u>	<u>782</u>	<u>85,771</u>
Unallocated costs		<u>(3,826)</u>		
Loss from operations		<u>(6,757)</u>		
		Unaudited Six months ended 30 September 2006	Capital expenditure HK\$'000	Audited As at 31 March 2007
	Turnover HK\$'000	Segment results HK\$'000		Segment assets HK\$'000
Hong Kong	6,483	232	321	15,900
PRC	90	(3,792)	239	42,317
	<u>6,573</u>	<u>(3,560)</u>	<u>560</u>	<u>58,217</u>
Unallocated costs		<u>(3,117)</u>		
Loss from operations		<u>(6,677)</u>		

3. Loss from operating activities

Loss from operating activities is stated after charging the following:

	Unaudited Six months ended 30 September	
	2007 HK\$'000	2006 HK\$'000
Cost of inventories sold	2,378	2,323
Depreciation	3,002	3,781
Amortisation of club membership and film rights	11	3
	<u>5,391</u>	<u>6,107</u>

4. Finance costs

	Unaudited Six months ended 30 September	
	2007 HK\$'000	2006 HK\$'000
Interest expenses on borrowings wholly repayable within five years	955	1,719
	<u>955</u>	<u>1,719</u>

5. Staff costs

	Unaudited Six months ended 30 September	
	2007 HK\$'000	2006 HK\$'000
Wages and salaries	3,963	4,663
Pension costs — defined contribution plans	111	140
	<u>4,074</u>	<u>4,803</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 2007 (2006: Nil).

**7. Loss per share**

**(a) Basic**

The calculation of basic loss per share for the three months and six months ended 30 September 2007 was based on the Group's loss attributable to shareholders of approximately HK\$2,700,000 and HK\$7,712,000 respectively (2006: approximately HK\$3,992,000 and HK\$8,396,000) and on 376,849,826 and 345,396,175 (2006: 312,500,000 and 312,500,000) ordinary shares in issue during the periods.

**(b) Diluted**

Diluted loss per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. A calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Three months ended 30 September 2007	Six months ended 30 September 2007
Loss attributable to equity holders of the Company	(2,700)	(7,712)
Weighted average number of ordinary shares in issue (thousands)	376,850	345,396
Adjustments for share options	11,317	7,312
Weighted average number of ordinary shares for diluted loss per share (thousands)	388,167	352,708
Diluted loss per share	<u>(0.70 cents)</u>	<u>(2.19 cents)</u>

No diluted loss per share for 2006 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 has no dilutive effect.

**8. Capital expenditure**

	Film rights HK\$'000	Club membership HK\$'000	Fixed assets HK\$'000
<b>Six months ended 30 September 2007</b>			
Opening net book amount	1,038	161	15,009
Additions less disposals	—	—	169
Amortisation/depreciation charge	(8)	(3)	(3,002)
Closing net book amount	<u>1,030</u>	<u>158</u>	<u>12,176</u>

**9. Accounts receivable**

The Group's credit term granted to trade debtors generally ranges from 30 to 90 days. At 30 September 2007, details of the ageing analysis of accounts receivable were as follows:

	Unaudited 30 September 2007 HK\$'000	Audited 31 March 2007 HK\$'000
Current	1,111	467
31—60 days	547	295
61—90 days	784	91
Over 90 days	1,329	4,189
	<u>3,771</u>	<u>5,042</u>

**10. Accounts payable**

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

	Unaudited 30 September 2007 HK\$'000	Audited 31 March 2007 HK\$'000
Current	203	371
31—60 days	109	70
Over 60 days	519	741
	<u>831</u>	<u>1,182</u>

## 11. Share capital

	Number of ordinary shares of HK\$0.01 each		Ordinary shares	
	Unaudited 30 September 2007 HK\$'000	Audited 31 March 2007 HK\$'000	Unaudited 30 September 2007 HK\$'000	Audited 31 March 2007 HK\$'000
<i>Authorised</i>	<u>700,000</u>	<u>700,000</u>	<u>7,000</u>	<u>7,000</u>
<i>Issued and fully paid</i>				
At 1 April 2007	312,500		3,125	
Exercise of options	10,000		100	
Issue of new shares from a top-up placing	<u>62,500</u>		<u>625</u>	
At 30 September 2007	<u>385,000</u>		<u>3,850</u>	

On 5 October 2007, 53,000,000 new ordinary shares of the Company were issued following the completion of top-up placing as set out in the Company's report dated 25 September 2007.

## 12. Capital Commitments

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

	Unaudited 30 September 2007 HK\$'000	Audited 31 March 2007 HK\$'000
Authorised but not contracted for: Hunan Cable TV digitalisation network system	16,975	30,322
Contracted for but not provided for: Hunan Cable TV digitalisation network system	<u>7,368</u>	<u>7,368</u>
	<u>24,343</u>	<u>37,690</u>

## 13. Subsequent event

As set out in the Company's report and circular dated 21 September 2007 and 22 October 2007 respectively, on 17 September 2007, the Group entered into an agreement to acquire 80% interest in Nanjing Everyday Buy Trading Co., Ltd. at a consideration of HK\$350 million. The transaction was approved by the shareholders of the Company on a special general meeting dated 7 November 2007 and is pending for completion.

## INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months and six months ended 30 September 2007 (2006: Nil).

## FINANCIAL AND BUSINESS REVIEW

For the six months ended 30 September 2007, the Group recorded a turnover of approximately HK\$5,984,000 (2006: approximately HK\$6,573,000).

Income from pre-mastering and other media services ("Media Services") accounted for approximately 72% (2006: approximately 64%) of the Group's turnover, income from the provision of audiovisual playout services ("Playout Services") accounted for approximately 26% (2006: approximately 34%) of the Group's turnover, whilst income from provision of TV digitalisation related services, accounted for approximately 2% (2006: approximately 2%) of the total turnover.

During the period under review, the loss attributable to shareholder was approximately HK\$7,712,000 (2006: approximately HK\$8,396,000). The decrease in playout service income was due to the termination of certain channels as compared with the same period last year. The provision of TV digitalisation related services is still in its development stage.

## 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 50 as at 30 September 2007.

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 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 Singapore. The channel was running smoothly since then. This encouraging start has further strengthened 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 September 2007, the Group entered into an agreement to acquire 80% interest in Nanjing Everyday Buy Trading Co. Ltd. The acquisition will present the Group with an opportunity to leverage on its expertise and network in the PRC television market and to tap into the growth potential of the television advertising and direct TV sales market in the PRC.

Following the fund raising exercises in July and October 2007, the Group raised funds of approximately HK\$150 million to enhance the working capital of the Group.

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

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2007, the gearing ratio of the Group, based on the total bank and other loans of approximately HK\$14,006,000 and the net assets of HK\$48,212,000, was 29%.

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 2007.

## EMPLOYEE INFORMATION

As at 30 September 2007, the Group had 93 full-time employees. Employee costs, including directors' emoluments for the period amounted to approximately HK\$4,074,000. 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 2007, 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	7,380,500	80,000,000 (note (a))	—
Mr. CHAN Kwok Sun, Dennis	—	—	80,000,000 (note (a))
Mr. FENG Xiao Ping	—	41,718,750 (note (b))	—

#### Notes:

- (a) 80,000,000 shares (inclusive of 53,000,000 new shares of the Company issued on 5 October 2007 following the completion of a top-up placing as announced by the Company on 25 September 2007) 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. In addition, 10,000,000 shares are held by Sky Dragon Digital Television and Movies Holdings Limited ("Sky Dragon"), a company 99% indirectly owned by Mr. Feng Xiao Ping.

### (b) Share option

On January 2005, the Group has granted an option ("Option") to Sky Dragon to subscribe for 30 million shares of the Company at an exercise price of HK\$0.788 per share. On 21 June 2007, Sky Dragon exercised share option to subscribe 10 million shares of the Company and as at 30 September 2007, Sky Dragon still held options to subscribe 20 million shares.

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 2007, 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	18.26
Sino Unicorn	31,718,750	8.24
Random Services Limited ("Random Services") (note (a))	31,718,750	8.24
Yang Fuguang (note (a))	31,718,750	8.24
Lau Tak Chuen Airy (note (b))	20,612,000	5.35
Citigroup Inc. (note (b))	20,500,000	5.32
Fair China Focus Fund Limited (note (b))	20,500,000	5.32
Fair Investment Management Limited (note (b))	20,500,000	5.32

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.
- (b) The interests of Lau Tak Chuen Airy include 19,000,000 shares held by Fair Investment Management Limited and Fair China Focus Fund Limited. The interests of Fair China Focus Fund Limited and Fair Investment Management Limited refer to the same parcel of shares. The interest of Citigroup Inc. being security interest in shares.

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 2007.

## 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 2007. 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 2007.

## 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 deal 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 and Mr. Chang Carl.

On Behalf of the Board  
**Tong Hing Chi**  
Chairman

Hong Kong, 14 November 2007