

# **CHINA CHIEF CABLE TV GROUP LIMITED**

(Incorporated in Bermuda with limited liability)

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

**(Stock code: 8153)**



## **INTERIM REPORT**

**2009**

Three months and Six months ended  
30th September 2009

**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 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 2009 (the “Relevant Periods”) together with the comparative unaudited figures for the corresponding periods in 2008 as follows:

### UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three months and six months ended 30 September 2009

	Note	Three months ended 30 September		Six months ended 30 September	
		2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Turnover	2	7,054	4,690	14,475	7,982
Cost of sales		(4,507)	(5,397)	(11,292)	(10,197)
Gross profit/(loss)		2,547	(707)	3,183	(2,215)
Other revenue		(56)	61	232	172
General, administrative and other expenses		(4,884)	(9,121)	(29,271)	(17,541)
Losses from operations	3	(2,393)	(9,767)	(25,856)	(19,584)
Finance costs	4	(253)	(177)	(669)	(353)
Share of loss of an associated company		—	(3,438)	—	(6,199)
Losses for the period		(2,646)	(13,382)	(26,525)	(26,136)
Basic loss per share	7	(0.13 HK cents)	(2.12 HK cents)	(1.41 HK cents)	(4.33 HK cents)
Attributable to:					
Equity holders of the Company		(2,374)	(12,617)	(25,488)	(24,670)
Minority interests		(272)	(765)	(1,037)	(1,466)
		(2,646)	(13,382)	(26,525)	(26,136)

### CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September 2009 and 31 March 2009

	Note	Unaudited 30 September 2009 HK\$'000	Audited 31 March 2009 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	8	27,619	21,546
Goodwill	8	81,379	81,400
Other intangible assets	8	182,300	182,419
		291,298	285,365
<b>Current assets</b>			
Inventories		4,289	3,651
Accounts receivable	9	4,504	7,772
Other receivables and deposits		45,180	38,083
Financial assets at fair value through profit or loss		11,970	3,078
Bank balances and cash		8,447	6,976
		74,390	59,560
<b>Current liabilities</b>			
Accounts payable	10	9,293	3,928
Other payables and accrued charges		18,686	17,598
Amounts due to related companies		6,658	6,674
Amount due to a director		6,665	6,065
Bank and other loans		15,110	15,125
		56,412	49,390
<b>Net current assets</b>		17,978	10,170
<b>Total assets less current liabilities</b>		309,276	295,535
<b>Capital and reserves</b>			
Share capital	11	18,503	17,593
Reserves		265,458	251,590
Equity attributable to equity holders of the company		283,961	269,183
Minority interests		25,315	26,352
<b>Total equity</b>		309,276	295,535

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2009

	Attributable to equity holders of the Company									
	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	Convertible bonds — equity component HK\$'000	Subtotal HK\$'000	Minority interest HK\$'000	Total HK\$'000
At 1 April 2008	4,380	185,229	(84,068)	(197)	6,000	676	—	112,020	—	112,020
Issue of shares, net of expenses	1,560	48,360	—	—	—	—	—	49,920	—	49,920
Issue of convertible bond	—	—	—	—	—	—	31,002	31,002	—	31,002
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	2,206	2,206
Exchange differences	—	—	—	—	—	541	—	541	—	541
Loss for the period	—	—	(24,670)	—	—	—	—	(24,670)	(1,466)	(26,136)
At 30 September 2008	5,940	233,589	(108,738)	(197)	6,000	1,217	31,002	168,813	740	169,553
At 1 April 2009	17,593	612,184	(367,489)	(197)	7,382	(290)	—	269,183	26,352	295,535
Issue of shares, net of expenses	910	24,755	—	—	—	—	—	25,665	—	25,665
Issue of share options	—	—	—	—	14,500	—	—	14,500	—	14,500
Exchange differences	—	—	—	—	—	101	—	101	—	101
Loss for the period	—	—	(25,488)	—	—	—	—	(25,488)	(1,037)	(26,525)
At 30 September 2009	18,503	636,939	(392,977)	(197)	21,882	(189)	—	283,961	25,315	309,276

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2009

	Unaudited Six months ended 30 September	
	2009 HK\$'000	2008 HK\$'000
Net cash outflow from operating activities	(15,981)	(12,428)
Net cash used in investing activities	(8,623)	(34,635)
Net cash from financing activities	25,665	—
Net increase/(decrease) in cash and cash equivalents	1,061	(47,063)
Cash and cash equivalents at 1 April	6,976	72,316
Effect of changes in foreign exchange rates	410	(378)
Cash and cash equivalents at 30 September	8,447	24,875
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	8,447	24,875

Notes:

### 1. Basis of preparation and principal accounting policies

The unaudited 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, as modified by revaluation of financial assets at fair value through profit or loss which are carried at fair value.

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 2009. 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 (collectively known as “TV digitalisation related services”), direct television sales and cordyceps-related business in the People’s Republic of China (“PRC”).

#### Primary report format — business segments

The Group is organised into five 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;
- 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;
- Direct television sales; and
- Sale of cordyceps-related products.

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

*Secondary report format — geographical segments*

The Group's five 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, direct television sales and sale of cordyceps-related products.

There are no sales between the geographical segments.

**Business Segment**

	Unaudited Six months ended 30 September 2009					Total HK\$'000
	Provision of Pre-mastering and other media services HK\$'000	Provision of audiovisual playout services HK\$'000	Provision of TV digitalisation related services HK\$'000	Direct television sales HK\$'000	Sale of cordyceps- related product HK\$'000	
Turnover	7,346	2,555	365	562	3,647	14,475
Segment results	999	(3,516)	(2,880)	(10,470)	1,602	(14,265)
Unallocated income						229
Unallocated expenses						(11,820)
Loss from operations						(25,856)
Finance costs						(669)
Share of loss of an associated company						—
Loss attributable to shareholders						(26,525)
Capital expenditure	137	301	386	415	7,384	8,623
Depreciation	265	265	1,037	513	142	2,222
Unallocated depreciation						32
						2,254

	Unaudited As at 30 September 2009					Total HK\$'000
	Provision of Pre-mastering and other media services HK\$'000	Provision of audiovisual playout services HK\$'000	Provision of TV digitalisation related services HK\$'000	Direct television sales HK\$'000	Sale of cordyceps- related product HK\$'000	
Segment assets	524	1,633	11,932	104,278	139,268	257,635
Unallocated assets						108,053
Total assets						365,688
Segment liabilities	6,911	360	23,765	4,370	10,976	46,382
Unallocated liabilities						10,030
Total liabilities						56,412

	Unaudited Six months ended 30 September 2008					Total HK\$'000
	Provision of Pre-mastering and other media services HK\$'000	Provision of audiovisual playout services HK\$'000	Provision of TV digitalisation related services HK\$'000	Direct television sales HK\$'000	Sale of cordyceps- related product HK\$'000	
Turnover	6,240	1,585	157	—	—	7,982
Segment results	(1,319)	(3,530)	(2,691)	—	—	(7,540)
Unallocated expenses						(12,044)
Loss from operations						(19,584)
Finance costs						(353)
Share of loss of an associated company						(6,199)
Loss attributable to shareholders						(26,136)
Capital expenditure	667	312	12	—	—	991
Unallocated capital expenditure						2,146
						3,137
Depreciation	500	500	2,011	—	—	3,011
Unallocated depreciation						150
						3,161

Audited  
As at 31 March 2009

	Provision of Pre-mastering and other media services <i>HK\$'000</i>	Provision of audiovisual playout services <i>HK\$'000</i>	Provision of TV digitalisation related services <i>HK\$'000</i>	Direct television sales <i>HK\$'000</i>	Sale of cordyceps- related product <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment assets	1,288	2,275	12,950	107,205	124,690	248,408
Unallocated assets						96,517
Total assets						<u>344,925</u>
Segment liabilities	3,417	334	22,972	5,120	6,465	38,308
Unallocated liabilities						11,082
Total liabilities						<u>49,390</u>

**Geographical segments**

	Turnover <i>HK\$'000</i>	Unaudited Six months ended 30 September 2009 Segment results <i>HK\$'000</i>	Capital expenditure <i>HK\$'000</i>	Unaudited As at 30 September 2009 Segment assets <i>HK\$'000</i>
Hong Kong	9,901	(2,517)	438	28,831
PRC	4,574	(11,748)	8,185	336,857
	<u>14,475</u>	<u>(14,265)</u>	<u>8,623</u>	<u>365,688</u>
Unallocated income		229		
Unallocated costs		(11,820)		
Loss from operations		<u>(25,856)</u>		
		Unaudited Six months ended 30 September 2008 Segment results <i>HK\$'000</i>	Capital expenditure <i>HK\$'000</i>	Audited As at 31 March 2009 Segment assets <i>HK\$'000</i>
Hong Kong	7,825	(4,849)	2,188	18,682
PRC	157	(2,691)	10,582	326,243
	<u>7,982</u>	<u>(7,540)</u>	<u>12,770</u>	<u>344,925</u>
Unallocated costs		(12,044)		
Loss from operations		<u>(19,584)</u>		

**3. Losses from operations**

Losses from operations are stated after charging/(crediting) the following:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Amortisation of club membership	3	3
Amortisation of film rights	110	—
Cost of inventories sold	5,999	5,608
Depreciation	2,254	3,161
(Gain)/loss on financial assets at fair value through profit or loss	(8,892)	2,432
Operating leases in respect of		
— land and building	3,070	2,631
— plant and machinery	2,910	2,910
Staff costs (including directors' emolument and share-based payment)	<u>25,359</u>	<u>5,590</u>

**4. Finance costs**

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Interest expenses on borrowings wholly repayable within five years	<u>669</u>	<u>353</u>

5. Staff costs

	Unaudited Six months ended 30 September	
	2009 HK\$'000	2008 HK\$'000
Wages and salaries	10,638	5,445
Pension costs — defined contribution plans	221	145
Share-based payment	14,500	—
	<u>25,359</u>	<u>5,590</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 2009 (2008: Nil).

7. Loss per share

The calculation of basic loss per share for the three months and six months ended 30 September 2009 was based on the Group's loss attributable to shareholders of approximately HK\$2,374,000 and HK\$25,488,000 respectively (2008: approximately HK\$12,617,000 and HK\$24,670,000) and on 1,836,037,000 and 1,813,861,000 (2008: 594,000,000 and 570,131,000) weighted average number of ordinary shares in issue during the periods.

No diluted loss per share for 2009 and 2008 has been presented, as the exercise of the outstanding share options and convertible bonds of the Company during the three months and six months ended 30 September 2009 and 2008 would result in reducing loss per share.

8. Capital expenditure

	Other intangible assets				Subtotal HK\$'000	Property, plant and equipment HK\$'000	Goodwill HK\$'000
	Patents HK\$'000	License HK\$'000	Film rights HK\$'000	Club membership HK\$'000			
Carrying value at 1 April 2009	98,000	83,000	1,254	165	182,419	21,546	81,400
Additions less disposals	—	—	—	—	—	8,623	—
Amortisation/depreciation charge	—	—	(110)	(3)	(113)	(2,254)	—
Exchange realignment	—	—	(5)	(1)	(6)	(296)	(21)
Carrying value at 30 September 2009	<u>98,000</u>	<u>83,000</u>	<u>1,139</u>	<u>161</u>	<u>182,300</u>	<u>27,619</u>	<u>81,379</u>

9. Accounts receivable

The Group's credit term granted to trade debtors generally ranges from 15 to 90 days. At 30 September 2009, details of the ageing analysis of accounts receivable were as follows:

	Unaudited 30 September 2009 HK\$'000	Audited 31 March 2009 HK\$'000
Current	194	5,612
31 — 60 days	4,218	2,160
61 — 90 days	2	—
Over 90 days	90	—
	<u>4,504</u>	<u>7,772</u>

10. Accounts payable

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

	Unaudited 30 September 2009 HK\$'000	Audited 31 March 2009 HK\$'000
Current	495	777
31 — 60 days	2,380	2,061
Over 60 days	6,418	1,090
	<u>9,293</u>	<u>3,928</u>

## 11. Share capital

	Number of ordinary shares of HK\$0.01 each '000	Ordinary shares HK\$'000
<i>Authorised</i>		
At 1 April 2009	2,000,000	20,000
Increase during the period (Note a)	8,000,000	80,000
At 30 September 2009	<u>10,000,000</u>	<u>100,000</u>
<i>Issued and fully paid</i>		
At 1 April 2009	1,759,298	17,593
Issue of new shares from share subscription (Note b)	91,000	910
At 30 September 2009	<u>1,850,298</u>	<u>18,503</u>

Note:

- (a) Pursuant to special general meeting held on 2 July 2009, the authorised share capital of the Company was increased from HK\$20,000,000 to HK\$100,000,000 by the creation of 8,000,000,000 additional new shares of HK\$0.01 each, ranking pari passu in all respects with the existing shares of the Company.
- (b) On 20 May 2009, 50,000,000 shares of the Company were issued to subscribers at a total consideration of HK\$14,000,000, of which HK\$500,000 were credited to share capital account and the net balance after expenses of HK\$13,296,000 were credited to share premium account.
- On 29 May 2009, 25,000,000 shares of the Company were issued to subscribers at a total consideration of HK\$8,085,000 of which HK\$250,000 were credited to share capital account and the net balance after expenses of HK\$7,739,000 were credited to share premium account.
- On 21 September 2009, 16,000,000 shares of the Company were issued to subscribers at a total consideration of HK\$4,000,000 of which HK\$160,000 were credited to share capital account and the net balance after expenses of HK\$3,720,000 were credited to share premium account.

## 12. Capital Commitments

At 30 September 2009, the Group had capital commitments in respect of the following:

	Unaudited 30 September 2009 HK\$'000	Audited 31 March 2009 HK\$'000
Contracted for but not provided for: Film development	<u>13,750</u>	<u>17,350</u>

## INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months and six months ended 30 September 2009 (2008: Nil).

## FINANCIAL AND BUSINESS REVIEW

For the six months ended 30 September 2009, the Group recorded a turnover of approximately HK\$14,475,000 (2008: approximately HK\$7,982,000). The increase was mainly due to the increase in the income from pre-mastering and other media services ("Media Services") and sale of cordyceps-related products.

Income from Media Services accounted for approximately 51% (2008: approximately 78%) of the Group's turnover. Income from the provision of audiovisual playout services ("Playout Services") accounted for approximately 18% (2008: approximately 20%) of the Group's turnover.

Income from provision of TV digitalisation related services, accounted for approximately 3% (2008: approximately 2%) of the total turnover. Such business has been launched since the fourth quarter of 2004 and the income will be further improved as a result of the process of launching digital television network across the PRC by the PRC government.

Income from direct TV sales amounted to approximately HK\$562,000 (2008: Nil). The business was acquired in April 2008.

Income from sale of cordyceps-related products amounted to approximately HK\$3,647,000 (2008: Nil). The business was acquired in November 2008.

The Group generated a gross profit of approximately HK\$3,183,000 (2008: gross loss of approximately HK\$2,215,000) out of a total turnover of approximately HK\$14,475,000 (2008: approximately HK\$7,982,000) during the six-month period. The gross margin has been improved from loss of 28% in 2008 to profit of 22% in the current period, mainly due to the incorporation of result of cordyceps-related business which has a high profit margin and level off the gross loss generated from Media Services.

During the period under review, the loss attributable to equity holders of the company was approximately HK\$25,487,000 (2008: approximately HK\$24,670,000).



## BUSINESS PURSUITS AND PROSPECTS

The Group has acquired a new business for the provision of TV digitalization related services in August 2004 in order to expand and grapped the opportunities of network digitalization business in the PRC. At present, the digital network signals is completely covered throughout the Hu Nan province and the TV digitalization related services continue to maintain a healthy growth rate and steady increase of audience base.

In August 2009, State Administration of Radio Film and Television (“SARFT”), which is an executive branch under the State Council of the People’s Republic of China (“PRC”) released a notice called “The Views on Accelerating the Development of the Radio and Television Cable Networks”. The Group Management team (“The management”) suggests that the release of the notice is a positive signal that the PRC government is dedicated to support the further development of broadcasting digital networks, and information technology. With such encouraging government policy, the management is optimistic and confident about the future of the digital television market in the PRC and will continue to explore new business opportunities for the segment.

In view of the market potential in direct TV sales, TV advertising and program production in the increasingly affluent PRC market, the management believes it is a good opportunity to capitalize on its expertise and experience in digitalization related services. In April 2008, the Group completed the acquisition of 80% equity interest in Nanjing Everyday Buy Trading Co., Ltd (“NJ Everyday Buy”). Hence, the Group leverages its digital network service in the direct TV sales and TV advertising market in the PRC.

However, The PRC was affected by the outbreak of the financial turmoil in the second half of 2008, which adversely impacted the general consumer spending sentiment. During the year, new foreign exchange and broadcasting regulations imposed by the PRC also crucially affected the operation of NJ Everyday Buy. Under the new foreign exchange regulation, foreign currency can not be remitted for domestic re-investment purposes. In other words, Hong Kong dollar being remitted into NJ everyday Buy could not be reinvested in the joint venture as an investment. In addition, a new broadcasting regulation has announced that TV sales program is considered as advertisement and is prohibited to be broadcasted on pay TV channels. NJ Everyday Buy owns a pay TV channel with program that is used for promoting consuming products. Given the new regulations, NJ Everyday Buy is conducting under an impairment investment. Due to these force majeure reasons, the Group will slow down the activities in TV sale business and intend to scale down the overall direct TV business of NJ Everyday Buy this year.

As to diversify its existing business portfolio and to broaden its source of income, the Group completed the acquisition of 100% equity interest in Hong Kong New Success International Group Investment Company Limited (“New Success”) and its subsidiaries (“New Success Group”) in November 2008. The management believes that the acquired cordyceps-related business can provide a new source of income to the Group. The cordyceps-related products have exceptional advantages in the prevention of cancer, anti-cancer, enhance immunity, and other aspects. Currently, New Success Group is in the process of improving the production line, in order to uplift the production capacity, New Success Group has built a new production line at Yongchun County in the PRC. The Group is in the process of commencing to distribute those products including considering opening retail stores in various main cities in the PRC.

The Group will continue to endeavour its best effort in keeping its established brand name and have umpteen confident in the enormous potential market in the PRC a positive approach towards the bright market in the PRC.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2009, the gearing ratio of the Group, based on the total bank and other loans of approximately HK\$15,110,000 and the net assets of HK\$283,962,000, was 5.3%.

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 2009.

## EMPLOYEE INFORMATION

As at 30 September 2009, the Group had 248 full-time employees. Employee costs, including directors’ emoluments for the period amounted to approximately HK\$25,359,000. 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

At 30 September 2009, 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. Feng Xiao Ping	—	41,718,750 (note (a))	—

Note:

- (a) 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 Holdings”), a company 99% indirectly owned by Mr. Feng Xiao Ping.

**(b) Share Option**

In January 2005, the Group has granted an option (“Option”) to Sky Dragon Holdings 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 Holdings exercised share option to subscribe 10 million shares of the Company. No Option has been subscribed since then and all remaining options were expired on 2 August 2009.

On 1 April 2009, the Group has granted an Option II under Scheme II (as set out in the annual report of the Company for the year ended 31 March 2009) to Mr. Wong Man Hung Patrick to subscribe for 25 million shares of the Company at an exercise price of HK\$0.125 per share. As at 30 September 2009, Mr. Wong Man Hung Patrick has not subscribed any share under the Scheme II.

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 2009, 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.

<b>Name of shareholders</b>	<b>Number of shares</b>	<b>Percentage of share capital (%)</b>
Law Kwok Keung ( <i>Note (a)</i> )	104,520,000	5.65
Keenway Holdings Limited ( <i>Note (a)</i> )	104,520,000	5.65
Lee Yuk Lun	219,298,244	11.85
Au Yeung Kai Wah	290,625,000	15.71

*Notes:*

(a) The interests refer to the same parcel of 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 2009.

**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 2009. 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 2009.

**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.

On Behalf of the Board  
**Wong Man Hung Patrick**  
*Chairman*

*As of the date of this report, the executive directors of the Company are Mr. Wong Man Hung Patrick, Mr. Law Kwok Leung, Mr. Feng Xiao Ping and Mr. Stephen William Frostick, the independent non-executive directors are Mr. Sousa Richard Alvaro, Mr. Lee Chi Hwa Joshua and Ms. Chan Mei Bo Mabel.*

Hong Kong, 13 November 2009