

2012/2013 Third Quarterly Report

CNC HOLDINGS LIMITED

中國新華電視控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code: 8356



CNC HOLDINGS
8356 • HK

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

Highlights

- The Group's revenue for the nine months ended 31 December 2012 increased by approximately 32.6% to approximately HK\$200.0 million (2011: HK\$150.8 million).
- Loss attributable to owners of the Company for the nine months ended 31 December 2012 was approximately HK\$46.0 million (2011: HK\$16.5 million).
- Basic loss per share for the nine months ended 31 December 2012 was approximately HK2.75 cents (2011: HK1.43 cents).
- The Board does not recommend the payment of any dividend for the nine months ended 31 December 2012.

The board of Directors (the "Board") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the "Group") for the three months and nine months ended 31 December 2012, together with the unaudited comparative figures for the corresponding periods in 2011, as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the three months and nine months ended 31 December 2012

	Notes	Nine months ended 31 December		Three months ended 31 December	
		2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Revenue	3	200,017	150,811	60,947	64,665
Cost of services		(231,113)	(136,264)	(71,895)	(58,928)
Gross (loss)/profit		(31,096)	14,547	(10,948)	5,737
Other revenue	3	29,126	184	28,633	5
Selling and distribution expenses		(423)	—	—	—
Administrative expenses		(19,670)	(26,380)	(7,074)	(16,515)
(Loss)/profit from operations	5	(22,063)	(11,649)	10,611	(10,773)
Finance costs		(31,207)	(3,465)	(10,437)	(2,987)
(Loss)/profit before income tax		(53,270)	(15,114)	174	(13,760)
Income tax	6	7,301	(1,374)	2,483	(276)
(Loss)/profit and total comprehensive (loss)/ income for the period attributable to owners of the Company		(45,969)	(16,488)	2,657	(14,036)
(Loss)/earnings per share attributable to owners of the Company	8				
— Basic and diluted (HK cents)		(2.75)	(1.43)	0.16	(1.07)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the nine months ended 31 December 2012

	Share capital HK\$'000	Share premium account HK\$'000	Convertible notes equity reserves HK\$'000	Share options reserves HK\$'000	Other reserves HK\$'000	(Accumulated losses)/retained earnings HK\$'000	Total equity HK\$'000
As at 1 April 2012	1,664	725,506	17,381	—	9,868	(683,926)	70,493
Loss and total comprehensive loss for the period	—	—	—	—	—	(45,969)	(45,969)
Issue of shares pursuant to the placing	10	9,990	—	—	—	—	10,000
Share placement expenses	—	(407)	—	—	—	—	(407)
As at 31 December 2012	1,674	735,089	17,381	—	9,868	(729,895)	34,117
As at 1 April 2011	992	19,976	—	—	9,868	14,944	45,780
Loss and total comprehensive loss for the period	—	—	—	—	—	(16,488)	(16,488)
Issue of shares pursuant to the placing	198	34,125	—	—	—	—	34,323
Share placement expenses	—	(1,003)	—	—	—	—	(1,003)
Issue of convertible notes upon acquisition of subsidiaries	—	—	20,997	—	—	—	20,997
Deferred tax arising from issue of convertible notes	—	—	(3,464)	—	—	—	(3,464)
Issue of shares upon acquisition of subsidiaries	474	673,082	—	—	—	—	673,556
Equity-settled share options arrangement	—	—	—	6,027	—	—	6,027
Release of share options reserves upon cancellation of equity-settled share options arrangement	—	—	—	(6,027)	—	6,027	—
As at 31 December 2011	1,664	726,180	17,533	—	9,868	4,483	759,728

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 31 December 2012

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 15 March 2010 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 registered office and principal place of business of the Company are located at the offices of Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands and Rooms 2601–2605, 26/F., China Resources Building, 26 Harbour Road, Wanchai, Hong Kong respectively.

The Company's ordinary shares (the "Share(s)") were listed on GEM of the Stock Exchange on 30 August 2010 by way of placing.

The principal activity of the Company is investment holding. The subsidiaries are engaged in the provision of waterworks engineering services, road works and drainage services and site formation works for the public sector in Hong Kong and business of broadcasting television programmes on television channels operated by television broadcasting companies in the Asia-Pacific region (excluding the People's Republic of China (the "PRC")) in return for advertising and related revenue. In the current period, the Group has expanded its advertising antenna to the outdoor mass media area.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated third quarterly financial statements for the nine months ended 31 December 2012 (the "Quarterly Financial Statements") have been prepared to comply with the disclosure requirements of the GEM Listing Rules.

The accounting policies and method of the computation used in the preparation of the Quarterly Financial Statements are consistent with those used in the annual report for the year ended 31 March 2012. The Group has adopted new or revised standards, amendments to standards and interpretation of Hong Kong Reporting Standards ("HKFRSs") which are effective for accounting periods commencing on or after 1 April 2012. The adoption of such new or revised standards, amendments to standard and interpretation does not have material impact on the Quarterly Financial Statements and does not result in substantial changes to the Group's accounting policies.

The Quarterly Financial Statements have been prepared under the historical cost convention and are presented in Hong Kong dollars ("HK\$"), which is also the functional currency of the Company and its subsidiaries.

3. REVENUE AND OTHER REVENUE

An analysis of revenue and other revenue recognised during the periods are as follows:

	Nine months ended 31 December		Three months ended 31 December	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Revenue				
Revenue from construction works	190,421	150,811	58,365	64,665
Advertising income	9,596	—	2,582	—
	200,017	150,811	60,947	64,665
Other revenue				
Gain on disposals of property, plant and equipment	428	—	1	—
Interest income	7	6	4	2
Sundry income	89	178	26	3
Waiver of convertible notes interests	28,602	—	28,602	—
	29,126	184	28,633	5

4. SEGMENT INFORMATION

Information reported to the executive Directors, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided are:

- (i) Provision of waterworks and civil services — Provision of waterworks engineering services, road works and drainage services and site formation works for public sector in Hong Kong; and
- (ii) Television broadcasting business — the business of broadcasting television programmes on television channels operated by television broadcasting companies and outdoor LED displays in return for advertising and related revenue.

Each of these operating segments is managed separately as each of the product and service lines requires different resources as well as marketing approaches. There are no inter-segment sales between the respective segments for both periods.

4. SEGMENT INFORMATION *(Continued)*

Segment revenue and results

For the nine months ended 31 December 2012

	Provision of waterworks and civil services HK\$'000 (Unaudited)	Television broadcasting business HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Revenue from external customers	190,421	9,596	200,017
Other revenue	491	26	517
Reportable segment revenue	190,912	9,622	200,534
Reportable segment results	3,003	(41,698)	(38,695)
Unallocated corporate income			28,609
Unallocated expenses			(11,977)
Finance costs			(31,207)
Loss before income tax			(53,270)

For the nine months ended 31 December 2011

	Provision of waterworks and civil services HK\$'000 (Unaudited)	Television broadcasting business HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Revenue from external customers	150,811	—	150,811
Other revenue	178	—	178
Reportable segment revenue	150,989	—	150,989
Reportable segment results	12,410	(12,092)	318
Unallocated corporate income			6
Unallocated expenses			(11,973)
Finance costs			(3,465)
Loss before income tax			(15,114)

5. (LOSS)/PROFIT FROM OPERATIONS

(Loss)/profit from operations is arrived at after charging the following:

	Nine months ended 31 December		Three months ended 31 December	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Amortisation of intangible assets (included in cost of services)	42,684	3,506	14,279	3,506
Amortisation of film rights (included in cost of services)	1,516	—	—	—
Share-based payment expenses	—	6,027	—	5,201
Loss on disposals of property, plant and equipment	—	49	—	—

6. INCOME TAX

The amount of income tax in the unaudited condensed consolidated statement of comprehensive income represents:

	Nine months ended 31 December		Three months ended 31 December	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Current tax — Hong Kong profits tax — current period	385	1,497	258	884
Deferred tax — current period	(7,686)	(123)	(2,741)	(608)
	(7,301)	1,374	(2,483)	276

Hong Kong profits tax is calculated at 16.5% (2011: 16.5%) on the estimated assessable profits arising in Hong Kong during the periods.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (“BVI”), the Company and its subsidiaries incorporated in the BVI are not subject to any income tax in the Cayman Islands and the BVI respectively.

No provision for Macau profits tax has been made as the subsidiary incorporated in Macau has no assessable profit arising in Macau during the periods.

7. DIVIDENDS

The Board does not recommend the payment of any dividend for each of the three months and nine months ended 31 December 2012 respectively (2011: Nil).

8. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculations of basic earnings/(loss) per Share for the three months and nine months ended 31 December 2012 are based on the unaudited consolidated profit of approximately HK\$2,657,000 and loss of approximately HK\$45,969,000 attributable to owners of the Company for each of the three months and nine months ended 31 December 2012 respectively (three months and nine months ended 31 December 2011: loss of approximately HK\$14,036,000 and HK\$16,488,000 respectively) and the weighted average number of 1,674,735,664 Shares and 1,674,335,664 Shares in issue for the three months and nine months ended 31 December 2012 respectively (weighted average number of Shares in issue for the three months and nine months ended 31 December 2011: 1,308,983,916 and 1,149,990,255 respectively) as if they had been in issue throughout the periods.

The diluted earnings per Share for the three months ended 31 December 2012 are not presented as the potential ordinary Shares had an anti-dilutive effect on the basic earnings per Share for the period. The diluted loss per Share for the nine months ended 31 December 2012 are not presented as the potential ordinary Shares had an anti-dilutive effect on the basic loss per Share for the period.

The diluted loss per Share for the three months and nine months ended 31 December 2011 were not presented as the potential ordinary Shares had an anti-dilutive effect on the basic loss per Share for the period.

9. SHARE CAPITAL

	Number of Shares	Nominal value HK\$'000
Authorised:		
As at 1 April 2012 and 31 December 2012 (Unaudited)	500,000,000,000	500,000
Issued and fully paid:		
As at 1 April 2012	1,664,735,664	1,664
Issue of Shares pursuant to the placing (<i>Note</i>)	10,000,000	10
As at 31 December 2012 (Unaudited)	1,674,735,664	1,674

Note: On 29 March 2012, the Company entered into top-up placing agreement and subscription agreement with Lotawater (BVI) Limited ("Lotawater") and Polaris Securities (Hong Kong) Limited to place an aggregate of 10,000,000 Shares to not less than six placees at a price of HK\$1.0 per placing Share. Pursuant to the subscription agreement, Lotawater agreed to subscribe for 10,000,000 Shares at a price of HK\$1.0 per subscription Share. The top-up placing and subscription was completed on 12 April 2012 and raised gross proceeds of HK\$10.0 million. The premium totalling approximately HK\$9,990,000 arising from the above subscription of Shares, net of share issue expenses of approximately HK\$407,000, has been credited directly to the share premium account.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group is principally engaged in the provision of waterworks engineering services, road works and drainage services and site formation works for the public sector in Hong Kong and business of broadcasting television programmes on television channels operated by television broadcasting companies in the Asia-Pacific region (excluding the PRC) in return for advertising and related revenue. During the nine months ended 31 December 2012 (the "Period"), the Group continued to focus on rendering waterworks engineering services to the public sector in Hong Kong and develop its business on television broadcasting. At the same time, the Group has expanded its advertising antenna to the outdoor mass media area.

Provision of waterworks and civil services

During the Period, the Group has been undertaking five main contracts and three subcontracts. Among the eight contracts, five are related to provision of waterworks engineering services and the three remaining contracts are related to provision of drainage services. Details of the contracts undertaken are set out below:

	Contract number	Particulars of contract
Main contracts	9/WSD/09	Replacement and rehabilitation of water mains, stage 3 — mains in Sai Kung
	8/WSD/11	Construction of Pak Shek Kok Fresh Water Service Reservoir Extension
	DC/2012/04	Sewerage in Kau Lung Hang San Wai, Kau Lung Hang Lo Wai and Tai Hang
	DC/2012/07	Lam Tsuen Valley Sewerage — Village Sewerage, Stage 2, phase 1
	DC/2012/08	Lam Tsuen Valley Sewerage — Village Sewerage, Stage 2, phase 2
Subcontracts	21/WSD/06	Replacement and rehabilitation of water mains, stage 2 — mains in Tai Po and Fanling
	18/WSD/08	Replacement and rehabilitation of water mains, stage 3 — mains on Hong Kong Island South and outlying islands
	8/WSD/10	Replacement and rehabilitation of water mains, stage 4 phase 1 — mains in Tuen Mun, Yuen Long, North District and Tai Po

Among the above eight contracts, three main contracts (contract numbered DC/2012/04, DC/2012/07 and DC/2012/08) were newly awarded during the Period.

During the Period, the two contracts with contracts numbered 8/WSD/10 and 18/WSD/08 were the main contributors to the Group's revenue, which generated approximately HK\$108.8 million and HK\$37.5 million, constituting approximately 54.4% and 18.8% of the Group's total revenue respectively.

Television broadcasting business

The Group's production of the ten-episode television feature programme — "Hong Kong, Hong Kong" was completed in June 2012. The Chinese version and English version of the television feature programme were broadcasted in the China Xinhua News Network World Channel (the "CNC Channel") (Chinese) and CNC Channel (English) (collectively the "CNC Channels") respectively from late June 2012 to early July 2012. CNC Channels are currently broadcasted in more than 60 countries and regions worldwide. "Hong Kong, Hong Kong" was also broadcasted in Hong Kong Cable TV Channel No. 66 and the prime time slots of 43 television channels in the PRC, including Jiangsu TV (江蘇衛視), Heilongjiang TV (黑龍江衛視), Guangdong TV (廣東電視台) and Tianjin TV (天津電視台). "Hong Kong, Hong Kong" received good responses from audiences and has been awarded the second honour of the humanities documentary films in the eighth Chinese documentary international films selection meeting (第八屆中國紀錄片國際選片會) of China Radio and TV Association Documentary Council (中國廣播電視協會紀錄片工作委員會). Besides, the Group has launched the global premiere of the locally produced programme — "Hong Kong Voice Express" during the Period. "Hong Kong Voice Express" is broadcasted in the CNC Channel (Chinese) weekly and can be viewed in Hong Kong via Hong Kong Cable TV Channel No. 66. The latest information of the programme could also be viewed through other media platforms, including the blogs created in Sina Weibo (新浪微博) and Tencent Weibo (騰訊微博), and the subscription of CNCTVHK in Youtube and Facebook by audiences, through which the latest information of the programme could be obtained.

During the Period, the Group had successfully entered into an advertising agreement pursuant to which the Group was entitled to receive the minimum guarantee of HK\$5.0 million for selling the advertising time slot in between programmes in Hong Kong Cable TV Channel No. 66 from 1 April 2012 to 30 September 2012.

On 19 July 2012, the Group as the licensor, had entered into a channel carriage agreement (the "Channel Carriage Agreement") with Asian Broadcasting Network (M) Sdn Bhd, a company incorporated under the laws of Malaysia and as the licensee, pursuant to which the licensor has agreed to grant to the licensee a non-exclusive and non-transferable license and right to distribute, use, promote and make available the contents of the CNC Channels to its subscribers through its services in Malaysia. Details of the Channel Carriage Agreement were set out in the announcement of the Company dated 14 September 2012. On 25 October 2012, the Group had also entered into a cooperation memorandum (the "Cooperation Memorandum") with Lao Digital TV Co., Ltd. (the "Lao Digital TV"), a company incorporated under the laws of the Lao People's Democratic Republic (the "Laos"), pursuant to which Lao Digital TV will broadcast the CNC Channels through its service in Laos. Details of the Cooperation Memorandum were set out in the announcement of the Company dated 25 October 2012. The Directors believe that by broadcasting the CNC Channels in Malaysia and Laos through cooperation with local television broadcasting companies, the Group will be able to boost up CNC Channels' viewership and lay a solid foundation for the Group to attract more advertising clients.

During the Period, the Company has launched a new project — project of large outdoor display screen under global display screen commercials network. On 12 November 2012, the Company entered into the outdoor full-colour LED display and advertisement release system construction agreement (the "Outdoor Full-Colour LED Display and Advertisement Release System Construction Agreement") with Shenzhen AOTO Electronics Co., Ltd. ("AOTO Electronics"), pursuant to which the Company has agreed to purchase from AOTO Electronics, and AOTO Electronics has agreed to supply to the Company, outdoor full-colour LED displays and a networked LED control platform on the terms and subject to the conditions of the Outdoor Full-Colour LED Display and Advertisement Release System Construction Agreement. On 18 December 2012, the Company placed its first order with AOTO

Electronics for the purchase of first batch of outdoor full-colour LED displays. Details of the Outdoor Full-Colour LED Display and Advertisement Release System Construction Agreement were set out in the announcement of the Company dated 12 November 2012.

At the same time, the Group entered into the LED display construction and operation agreements (the "LED Display Construction and Operation Agreements") with several commercial real estate developers and the LED display construction and operation strategic cooperation agreement (the "LED Display Construction and Operation Strategic Cooperation Agreement") with a property developer, pursuant to which the commercial real estate developers and the property developer will provide sites for the Company to construct LED displays which will be put into commercial operations after the completion of the construction. Details of the LED Display Construction and Operation Agreements and LED Display Construction and Operation Strategic Cooperation Agreement were set out in the announcement of the Company dated 18 December 2012.

The Directors believe that the Company enjoys competitive advantages in developing the LED display broadcasting and advertising business and such endeavour will increase the profitability of the Company, which is in the interests of the Company and its shareholders as a whole.

Aimed at maximizing profit and return for the Group and the shareholders of the Company, the Group is exploring new business opportunity to broaden its source of income and expand the business operations.

Financial Review

Revenue

For the Period, the Group reported a revenue of approximately HK\$200.0 million (2011: approximately HK\$150.8 million), representing an increase of approximately 32.6% as compared with that for the same period of the previous year. The revenue derived from provision of waterworks and civil services and television broadcasting business constituted approximately 95.2% and 4.8% of the Group's total revenue respectively. The higher revenue was mainly due to the increase in works from the replacement and rehabilitation of water mains stage 4 phase 1 — mains in Tuen Mun, Yuen Long, North District and Tai Po (contract number 8/WSD/10) and the construction of Pak Shek Kok Fresh Water Service Reservoir Extension (contract number 8/WSD/11). With the commencement of television broadcasting business during the Period, the Group derived advertising revenue of approximately HK\$9.6 million (2011: Nil).

During the Period, the revenue of the Group was primarily generated from the undertaking of waterworks contracts in the capacity of a subcontractor. The subcontracting revenue amounted to approximately HK\$148.2 million (2011: approximately HK\$109.8 million), representing approximately 74.1% of the total revenue for the Period (2011: approximately 72.8%). On the other hand, the revenue generated from the undertaking of waterworks contracts in the capacity of a main contractor amounted to approximately HK\$42.2 million (2011: approximately HK\$41.0 million), representing approximately 21.1% of the total revenue for the Period (2011: approximately 27.2%).

Cost of services

The Group's cost of services for the Period increased by approximately 69.6% to approximately HK\$231.1 million (2011: approximately HK\$136.3 million) as compared with that for the same period of previous year. The Group's cost of services mainly includes costs of construction services, transmission costs, broadcasting fee and amortisation charges on television broadcasting right and film rights. Costs of construction services mainly comprise

raw materials, direct labour and subcontracting fee for services provided by the subcontractors. Transmission costs comprise satellite transmission fee and carriage fee payable to satellite operator while broadcasting fee comprises fee payable to media broadcasting providers and China Xinhua News Network Co., Limited (“China Xinhua NNC”), a substantial shareholder of the Company.

Gross (loss)/profit

The gross loss of the Group for the Period was approximately HK\$31.1 million (2011: gross profit of approximately HK\$14.5 million). The gross loss margin of the Group was approximately 15.5% for the Period (2011: gross profit margin of approximately 9.6%). The gross loss and gross loss margin was largely as a consequence of the incurrence of cost of services for television broadcasting business including amortisation charges on television broadcasting right, the increase in direct labour cost and subcontracting cost and certain projects reaching a workstage with relatively thinner gross profit margin.

Other revenue

The Group’s other revenue for the Period increased by approximately 157.3 times to approximately HK\$29.1 million (2011: approximately HK\$184,000) as compared with the same period of previous year. The increase was mainly attributable to the waiver of convertible notes interests in an aggregate amount of approximately HK\$28.6 million (2011: Nil) from Proud Glory Investments Limited (“Proud Glory”) and China Xinhua NNC for the Period.

Selling and distribution expenses

The Group’s selling and distribution expenses for the Period amounted to approximately HK\$423,000 (2011: Nil). The selling and distribution expenses mainly consisted of advertising expenses for the television broadcasting business for the Period.

Administrative expenses

The Group’s administrative expenses for the Period decreased by approximately 25.4% to approximately HK\$19.7 million (2011: approximately HK\$26.4 million) as compared with that for the same period of previous year. The administrative expenses mainly consisted of auditor’s remuneration, legal and professional fees, staff costs (including Directors’ remuneration), depreciation expenses and rental expenses. The decrease in the administrative expenses was mainly attributable to one-off legal and professional fee incurred for the acquisition in the last year.

Finance costs

The Group’s finance costs for the Period increased by approximately 8.0 times to approximately HK\$31.2 million (2011: approximately HK\$3.5 million) as compared with that for the same period of previous year. The increase was mainly attributable to the incurrence of interest expenses on the promissory note and convertible notes.

Net loss

The Group recorded a net loss attributable to owners of the Company of approximately HK\$46.0 million (2011: approximately HK\$16.5 million) for the Period. The net loss was mainly resulted from the incurrence of gross loss of the Group and incurrence of finance costs on the promissory note and convertible notes.

Loss per Share

The basic loss per Share for the Period was approximately HK2.75 cents (2011: approximately HK1.43 cents).

Prospects

With the commencement of the television broadcasting business, the Group is well positioned to compete favorably and benefit from rising performance of television broadcasting business in coming years. In addition, the Group has expanded its advertising antenna to the outdoor mass media area and launched the new project of large outdoor display screen. The Directors expect that television broadcasting business will be the key driver of our future revenue growth while the provision of waterworks and civil services will continue to contribute stable revenue to the Group.

Provision of waterworks and civil services

The performance of the Group's waterworks business was comparable with that of the same period of the previous year. In the coming years, it is believed that the replacement and rehabilitation programme of water mains (the "R&R Programme") launched by Water Supplies Department of the Hong Kong government ("WSD") will continue to open up numerous waterworks opportunities to the Group. According to WSD, Stage 4 Phase 1 of the R&R Programme has commenced in March 2011 and will be completed in 2015. About 500 kilometres of water mains will be replaced and rehabilitated at this stage. Stage 4 Phase 2 of the R&R Programme is scheduled to commence in 2012 and will be completed in 2015. About 350 kilometres of water mains will be replaced and rehabilitated at this stage.

Not only will the R&R Programme launched by WSD continues to open up numerous waterworks opportunities to the Group, the infrastructure and development projects being currently implemented or to be implemented by the Group, roads and drainage works and site formation works will also create tremendous business opportunities to the Group in the future. On 13 June 2012, the Group and Hsin Chong Construction Company Limited ("Hsin Chong") have jointly obtained a new main contract of sewerage in Kau Lung Hang San Wai, Kau Lung Hang Lo Wai and Tai Hang (contract numbered DC/2012/04) with total contract sum of approximately HK\$178.1 million. Also, on 9 November 2012, the Group and Hsin Chong have jointly obtained two new main contracts of Lam Tsuen Valley Sewerage — Village Sewerage, Stage 2, Phase 1 (contract numbered DC/2012/07) and Lam Tsuen Valley Sewerage — Village Sewerage, Stage 2, Phase 2 (contract numbered DC/2012/08) with contract sums of HK\$164.1 million and HK\$161.9 million respectively.

We believe that the Group is able to take up more contracts and capture more potential business opportunities. Going forward, the Group will continue to improve its quality of service and enhance management capabilities and competitiveness to bid for more rewarding engineering contracts in Hong Kong and to further scale up the Group's business.

Television broadcasting business

During the Period, the Group has diversified its business to television broadcasting business and strengthened its income stream upon the commencement of television broadcasting business. The Group has developed a broadcasting network of television channels with relatively extensive scale. Currently, it is broadcasting the television programmes relating to information contents from Xinhua News Agency in Hong Kong, Macau, Thailand, New Zealand, Mongolia and, as recently started, in Malaysia and Laos through entering into the Channel Carriage Agreement and Cooperation Memorandum respectively. The Directors believe that the Group's broadcasting scope will be extended to more countries as time progresses. Leveraging on the extensive network of reporters worldwide

and resources available to Xinhua News Agency in producing television programmes, it is believed that viewership will increase with appropriate promotional effort and the business will bring in substantial advertising and related revenue to the Group in the future.

In addition, with the great success of “Hong Kong, Hong Kong” and “Hong Kong Voice Express”, the Group will continue to produce information contents in the future as and when appropriate. The broadcasting of self-produced information contents will help to build up and enhance local viewership with information contents of local interest in languages commonly used locally and also enhance the media revenue stream by tailor-making certain information contents related to particular advertising clients.

During the Period, the Group has expanded its advertising antenna to the outdoor mass media area and launched a new project — project of large outdoor display screen under global display screen commercials network. Leveraging on the resources of Xinhua News Agency, a substantial shareholder of the Company, in information collection, processing and release, the Company enjoys a favourable position in developing the LED display broadcasting and advertising business in HOPSCAs (i.e. complexes of hotels, offices, parks, shopping malls, clubs and apartments), which will certainly improve the Company’s profitability.

The advertising revenue from broadcasting of self-produced information contents and sales of advertising time slots in between programmes is expected to enlarge and diversify the Group’s income stream, which is consistent with its strategy of broadening its source of income, thereby providing significant growth potential for the Group. In addition, the Group will continue to negotiate with potential commercial real estate developers to boost up the project of large outdoor display screen and potential television broadcasting companies, advertising companies and advertising clients on selling advertising time slots in our channels in return for advertising revenue. By leveraging on the brand name of Xinhua News Agency, the Group could save brand development and marketing costs in promoting and negotiating with them. The Directors believe that such endeavour, coupled with the Group’s advertising capability in television broadcasting, will enable the Group to further diversify its advertising business. The Group will continue to put effort into expanding the television broadcasting business in the long run. We believe that it will be one of our bright areas in the coming future.

Capital Raising Exercise

On 29 March 2012, the Company entered into top-up placing agreement and subscription agreement with Lotawater and Polaris Securities (Hong Kong) Limited to place an aggregate of 10,000,000 Shares to not less than six places at a price of HK\$1.0 per placing Share. Pursuant to the subscription agreement, Lotawater agreed to subscribe for 10,000,000 Shares at a price of HK\$1.0 per subscription Share. The top-up placing and subscription was completed on 12 April 2012 and raised gross proceeds of HK\$10.0 million.

Details of the top-up placing and subscription were set out in the announcements of the Company dated 29 March 2012 and 12 April 2012 respectively.

Dividends

The Board does not recommend the payment of any dividend for the Period.

Share Option Scheme

The share option scheme of the Company was adopted and approved by the shareholders of the Company on 11 August 2010. No share options have been granted pursuant to the share option scheme during the Period.

DIRECTORS AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2012, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("SFO")) which have 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 in which they are taken or deemed to have under such provisions of the SFO); or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or which were required to be notified to the Company and the Stock Exchange pursuant to the required standard of dealings by Directors as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

Long position in the Shares:

Name	Number of Shares held	Number of underlying Shares under convertible notes <i>(Note d)</i>	Total interests	Percentage of aggregate interests to total issued share capital
	Interest in controlled corporation	Interest in controlled corporation		
Dr. Lee Yuk Lun ("Dr. Lee") <i>(Note a)</i>	—	892,857,143	892,857,143	53.31%
Mr. Kan Kwok Cheung ("Mr Kan") <i>(Note b)</i>	321,640,000	—	321,640,000	19.21%
Mr. Chia Thien Loong, Eric John ("Mr. Chia") <i>(Note c)</i>	125,210,000	—	125,210,000	7.48%

Notes:

- (a) *Dr. Lee is the sole beneficial owner of Proud Glory, which was interested in 892,857,143 underlying Shares. Under the SFO, Dr. Lee is deemed to be interested in all the Shares held by Proud Glory.*
- (b) *Mr. Kan is the sole beneficial owner of Shunleetat (BVI) Limited ("Shunleetat"), which was interested in 321,640,000 Shares. Under the SFO, Mr. Kan is deemed to be interested in all the Shares held by Shunleetat.*
- (c) *Mr. Chia is the sole beneficial owner of Lotawater and Purplelight (BVI) Limited ("Purplelight"), which were interested in 47,090,000 and 78,120,000 Shares respectively. Under the SFO, Mr. Chia is deemed to be interested in all the Shares held by Lotawater and Purplelight.*
- (d) *Details of the convertible notes are set out in the circular of the Company dated 19 November 2011.*

Saved as disclosed above, as at 31 December 2012, none of the Directors and chief executive of the Company had any other interests or short positions in any 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 or short positions which they were taken or deemed to have under such provisions of the SFO); or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or which were required to be notified to the Company and the Stock Exchange pursuant to the required standard of dealings by Directors as referred to in Rule 5.46 of the GEM Listing Rules.

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

So far as was known to the Directors, as at 31 December 2012, the following persons/entities (other than the Directors or chief executive of the Company) had, or are deemed to have, interests or short positions in the Shares, underlying Shares or debentures 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 who/which were directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group or who/which were recorded in the register required to be kept by the Company under Section 336 of the SFO with details as follows:

Long position in the Shares and underlying Shares:

Name	Number of Shares held			Number of underlying Shares under convertible notes (Note a)		Total interests	Percentage of aggregate interests to total issued share capital
	Beneficial owner	Interest in controlled corporation	Spouse interest	Beneficial owner	Interest in controlled corporation		
China Xinhua NNC	474,335,664 (Note b)	—	—	2,025,664,336 (Note b)	—	2,500,000,000	149.28%
中國新華新聞電視網有限公司	—	474,335,664 (Note b)	—	—	2,025,664,336 (Note b)	2,500,000,000	149.28%
Proud Glory	—	—	—	892,857,143 (Note c)	—	892,857,143	53.31%
Ms. Lam Shun Kiu, Rosita	—	—	321,640,000 (Note d)	—	—	321,640,000	19.21%
Shunleetat	321,640,000 (Note d)	—	—	—	—	321,640,000	19.21%
APT Satellite TV Development Limited	—	—	—	178,571,429 (Note e)	—	178,571,429	10.66%
APT Satellite Holdings Limited	—	—	—	—	178,571,429 (Note e)	178,571,429	10.66%
APT Satellite International Company Limited	—	—	—	—	178,571,429 (Note e)	178,571,429	10.66%
中國航天科技集團公司	—	—	—	—	178,571,429 (Note e)	178,571,429	10.66%
中國衛星通信集團有限公司	—	—	—	—	178,571,429 (Note e)	178,571,429	10.66%
Ms. Wan Pui Ki	—	—	125,210,000 (Note f)	—	—	125,210,000	7.48%

Name	Number of Shares held			Number of underlying Shares under convertible notes (Note a)		Total interests	Percentage of aggregate interests to total issued share capital
	Beneficial owner	Interest in controlled corporation	Spouse interest	Beneficial owner	Interest in controlled corporation		
Chuwei (BVI) Limited	92,490,000 (Note g)	—	—	—	—	92,490,000	5.52%
Mr. Cheng Ka Ming, Martin	—	92,490,000 (Note g)	—	—	—	92,490,000	5.52%

- (a) Details of the convertible notes are set out in the circular of the Company dated 19 November 2011.
- (b) China Xinhua NNC is wholly and beneficially owned by 中國新華新聞電視網有限公司. Accordingly, 中國新華新聞電視網有限公司 is deemed to be interested in the 474,335,664 Shares and 2,025,664,336 underlying Shares held by China Xinhua NNC under the SFO.
- (c) Proud Glory is wholly and beneficially owned by Dr. Lee. Accordingly, Dr. Lee is deemed to be interested in the 892,857,143 underlying Shares held by Proud Glory under the SFO.
- (d) Shunleetat is wholly and beneficially owned by Mr. Kan. Accordingly, Mr. Kan is deemed to be interested in the 321,640,000 Shares held by Shunleetat under the SFO. Ms. Lam Shun Kiu, Rosita is the spouse of Mr. Kan and is deemed to be interested in 321,640,000 Shares held by Shunleetat under the SFO.
- (e) APT Satellite Holdings Limited, APT Satellite International Company Limited, 中國航天科技集團公司 and 中國衛星通信集團有限公司 are controlling shareholders, either directly or indirectly, of APT Satellite TV Development Limited. Accordingly, APT Satellite Holdings Limited, APT Satellite International Company Limited, 中國航天科技集團公司 and 中國衛星通信集團有限公司 are deemed to be interested in the 178,571,429 underlying Shares held by APT Satellite TV Development Limited under the SFO.
- (f) Ms. Wan Pui Ki is the spouse of Mr. Chia and is deemed to be interested in total 125,210,000 Shares held by Lotawater and Purplelight under the SFO.
- (g) Chuwei (BVI) Limited is wholly and beneficially owned by Mr. Cheng Ka Ming, Martin. Accordingly, Mr. Cheng Ka Ming, Martin is deemed to be interested in the 92,490,000 Shares held by Chuwei (BVI) Limited.

Saved as disclosed above, as at 31 December 2012, the Directors were not aware of any other person/entity (other than the Directors or chief executive as disclosed in the paragraph headed "Directors and chief executive's interests and short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations" above) who/which had, or is deemed to have, interests or short positions in the Shares, underlying Shares or debentures 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 who/which were directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group or who/which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this report, none of the Directors and their respective associates including spouses and children under 18 years of age was granted by the Company or its subsidiaries any right to acquire Shares or debentures of the Company or any other body corporate, or had exercised any such right during the Period.

PURCHASE, SALE OR REDEMPTION OF THE SHARES

During the Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Shares.

COMPLIANCE ADVISER'S INTEREST IN THE COMPANY

As at 31 December 2012, as notified by the Company's compliance adviser, Optima Capital Limited (the "Compliance Adviser"), except for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 20 August 2010, neither the Compliance Adviser nor its directors, employees or associates had any interests in relation to the Company which is required to be notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules.

COMPETING INTERESTS

Interest in Vietnam Infrastructure (BVI) Limited

An executive Director, Mr. Chia, is the director and the beneficial owner of Vietnam Infrastructure (BVI) Limited, a company engaged in the provision of civil engineering services in Vietnam. The civil engineering services provided by Vietnam Infrastructure (BVI) Limited are similar to those provided by the Group but are limited to Vietnam. Mr. Chia confirms that Vietnam Infrastructure (BVI) Limited does not intend to extend its business to Hong Kong. As the Group and Vietnam Infrastructure (BVI) Limited are carrying on business in two distinct jurisdictions, the Directors consider that the business of Vietnam Infrastructure (BVI) Limited is not in direct competition with that of the Group.

Save as disclosed above, during the Period, none of the Directors and their respective associates is interested in any business which competes or is likely to compete, directly or indirectly, with the business of the Group under the GEM Listing Rules.

CONNECTED TRANSACTIONS

During the Period, the Group entered into following continuing connected transactions:

Lease Agreement

A lease agreement (the "Lease Agreement") has been entered into between the Company (as tenant) and Hong Kong Listco Limited ("HKLC") (as landlord) in relation to the office premises situated at 7/F. (except room No. 2), Anton Building, 1 Anton Street, Wanchai, Hong Kong at a monthly rent of HK\$15,000. The Lease Agreement has a term of 24 months from 1 November 2011 to 31 October 2013. The aforesaid office premises were leased by HKLC from Super Pizza Holdings Limited. HKLC is a company incorporated in Hong Kong and is wholly and beneficially owned by Mr. Chia; and Super Pizza Holdings Limited is a company incorporated in Hong Kong and is owned as to 50% by Mr. Chia, who is also the sole director of both HKLC and Super Pizza Holdings Limited.

The Lease Agreement was terminated under the mutual agreement of the tenant and landlord with effect from 1 September 2012. It was confirmed by both parties that no claims whatsoever against each other for fees, causes of action and liabilities of whatever nature will arise as a result of the termination. During the Period, total rent payable under the Lease Agreement amounted to HK\$75,000.

Announcement Posting Agreement

On 15 May 2012 and 30 June 2011, the Company entered into agreements (the "Announcement Posting Agreements") with HKLC pursuant to which HKLC will provide the Company with the service of dissemination of announcements including hosting and posting of announcements, press releases or other documents as required by the GEM Listing Rules on the website(s) of the Group at a monthly service fee of HK\$750 for a term of one year commencing from 1 July 2012 and 1 July 2011 respectively. The Company considers it more cost effective to engage a professional firm to take up this announcement posting obligation after the listing.

Television Broadcasting Right Agreement

On 5 September 2011, Xinhua TV Asia-Pacific Operating Co., Limited ("Xinhua TV Asia-Pacific") entered into a television broadcasting right agreement (the "Television Broadcasting Right Agreement") with China Xinhua NNC, pursuant to which China Xinhua NNC granted the television broadcasting right in respect of broadcasting information contents from Xinhua News Agency under CNC Channels on television channels in the Asia-Pacific region (excluding the PRC) to the Group for an annual fee of HK\$1.0 million prior to 31 December 2016 and HK\$3.0 million with effective from 1 January 2017. The Television Broadcasting Right Agreement has a term of 120 months from 1 September 2011 to 31 August 2021. Following the completion of the acquisition of the Xinhua TV Asia-Pacific on 9 December 2011, Xinhua TV Asia-Pacific became a wholly-owned subsidiary of the Company and China Xinhua NNC became a substantial shareholder of the Company, and is therefore a connected person of the Company within the meaning of the GEM Listing Rules. As a result, the transactions contemplated under the Television Broadcasting Right Agreement constitute continuing connected transactions for the Company pursuant to Chapter 20 of the GEM Listing Rules.

Advertisement Broadcasting Contract

On 23 May 2011, 中國新華新聞電視網有限公司 ("CNC China") and AVIC Culture Co., Ltd. (中航文化股份有限公司) ("AVIC Culture") entered into an advertisement operation cooperation contract (the "Advertisement Operation Cooperation Contract"), pursuant to which CNC China granted the exclusive right to AVIC Culture for the promotion and operation of 58% of the advertising resources of the CNC Channels (the "Partial Advertisement Operation Right") for the period from 25 May 2011 to 25 August 2016. As consideration, CNC China is entitled to a guaranteed

fixed fee of Renminbi (“RMB”) 90.0 million plus 40% of the part of advertising revenue derived from the Partial Advertisement Operation Right in excess of RMB90.0 million during the term of the Advertisement Operation Cooperation Contract (the “Payment under the Partial Advertisement Operation Right”).

On 24 August 2012, CNC China and China Xinhua NNC entered into an agreement (the “CNC Agreement”), pursuant to which CNC China will pay any amount that CNC China receives from AVIC Culture as the Payment under the Partial Advertisement Operation Right (on an after-tax basis and after deducting any reasonable fees) to China Xinhua NNC to reflect the fact that the commercial advertisements operated by AVIC Culture under the Partial Advertisement Operation Right will eventually be broadcasted through the television broadcasting network developed and maintained by China Xinhua NNC.

To support the operation of the Company, on 24 August 2012, China Xinhua NNC entered into an advertisement broadcasting contract (the “Advertisement Broadcasting Contract”) with Xinhua TV Asia-Pacific in respect of the advertising airtime allocated to China Xinhua NNC exclusively for the commercial advertisements operated by AVIC Culture. Pursuant to the Advertisement Broadcasting Contract, China Xinhua NNC has agreed to pay Xinhua TV Asia-Pacific, in cash, 50% of any amount that CNC China received as the Payment under the Partial Advertisement Operation Right (on an after-tax basis and after deducting any reasonable fees).

Since China Xinhua NNC is a substantial shareholder of the Company and therefore a connected person of the Company within the meaning of the GEM Listing Rules, the transactions contemplated under the Advertisement Broadcasting Contract constitute continuing connected transactions for the Company pursuant to Chapter 20 of the GEM Listing Rules.

GEM Listing Rules Implications

Pursuant to Rule 20.41 of the GEM Listing Rules, the transactions contemplated under the Television Broadcasting Right Agreement are subject to the applicable reporting, annual review and disclosure requirements under Chapter 20 of the GEM Listing Rules. The Company will comply with the applicable reporting, disclosure and independent shareholders’ approval requirements, as the case may be, under Chapter 20 of the GEM Listing Rules upon any variation or renewal of the Television Broadcasting Right Agreement.

Also pursuant to Rule 20.41 of the GEM Listing Rules, the transactions contemplated under the Advertisement Broadcasting Contract are subject to the applicable reporting, announcement and annual review requirements but exempt from independent shareholders’ approval requirements under Chapter 20 of the GEM Listing Rules because the highest applicable percentage ratio of the caps, calculated on an annual basis, is more than 0.1% but less than 5%. The Company will comply with the applicable reporting, disclosure and independent shareholders’ approval requirements, as the case may be, under Chapter 20 of the GEM Listing Rules upon any variation or renewal of the Advertisement Broadcasting Contract.

The Lease Agreement and the Announcement Posting Agreements were entered into in the ordinary and usual course of business of the Group. As the annual rental payable under the Lease Agreement and the annual service fee payable under the Announcement Posting Agreements referred to above are both less than HK\$1.0 million and none of the percentage ratios, on an annual basis, equals or exceeds 5%, the transactions under the aforesaid

agreements are exempt continuing connected transactions of the Company pursuant to Rule 20.33(3)(c) of the GEM Listing Rules, which are exempt from reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

Save as disclosed above, none of the Directors, controlling shareholders of the Company and their respective associates has any other connected transaction with the Group during the Period.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms which are the same as the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company periodically issues notices to its Directors reminding them of the general prohibition on dealing in the Company's listed securities during the blackout periods before the publication of announcements of financial results. The Company has confirmed, having made specific enquiry of the Directors, that all the Directors have complied with the required standards of dealings throughout the Period. The Company was not aware of any non-compliance in this respect during the Period.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of the shareholders and enhance the performance of the Group. The Company has applied the principles and code provisions in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 to the GEM Listing Rules. In the opinion of the Board, the Company has complied with the Code during the Period.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") was established on 11 August 2010 with terms of reference in compliance with paragraph C3.3 of the Code. The primary duties of the Audit Committee include, among other things, reviewing and supervising the financial reporting process and internal control systems, as well as the overall risk management of the Group, reviewing the financial statements and the quarterly, interim and annual reports of the Group, and reviewing the terms of engagement and scope of audit work of the external auditors.

As at 31 December 2012, the members of the Audit Committee were Mr. Chan Hon Yuen, Mr. Chu Siu Lun, Ivan, Mr. Hau Chi Kit, Ms. Liang Hui and Mr. Jin Hai Tao. Mr. Chan Hon Yuen was the chairman of the Audit Committee. The Audit Committee had reviewed the unaudited condensed consolidated results of the Group for the Period and is of the opinion that the preparation of such results complied with the applicable accounting standards and that adequate disclosures have been made.

At the meeting held on 4 February 2013, it was resolved that Mr. Li Yong Sheng was appointed as non-executive Director and a member of the Audit Committee with effect from 4 February 2013. As at date of this report, the Audit Committee consisted of six members, four of them are independent non-executive Directors and two of them is non-executive Director.

By Order of the Board
CNC Holdings Limited
Wu Jin Cai
Chairman and Executive Director

Hong Kong, 4 February 2013

As at the date of this report, the Board comprises the following Directors:

Executive Directors:

Mr. Wu Jin Cai
Dr. Lee Yuk Lun
Mr. Zou Chen Dong
Ms. Wu Xu Hong
Mr. Kan Kwok Cheung
Mr. Chia Thien Loong, Eric John

Non-executive Directors:

Mr. Li Yong Sheng
Ms. Liang Hui

Independent non-executive Directors:

Mr. Chan Hon Yuen
Mr. Chu Siu Lun, Ivan
Mr. Hau Chi Kit
Mr. Jin Hai Tao