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

2014-2015

First Quarterly Report

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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This report, for which the directors (the "Directors") 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 three months ended 30 June 2014 decreased by approximately 28.5% to approximately HK$67.9 million (2013: approximately HK$94.9 million).

- Loss attributable to owners of the Company for the three months ended 30 June 2014 decreased by 19.1% to HK$16.3 million (2013: approximately HK$20.1 million).

- Basic loss per Share for the three months ended 30 June 2014 was approximately HK0.78 cent (2013: approximately HK1.20 cents).

- The Board does not recommend the payment of any dividend for the three months ended 30 June 2014.

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 ended 30 June 2014, together with the unaudited comparative figures for the corresponding period in 2013, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED)

For the three months ended 30 June 2014

		Three months ended 30 June	
		2014	2013
	Notes	**HK$'000**	HK$'000
			(Restated)
Revenue	*3*	**67,905**	94,907
Cost of services		**(64,851)**	(88,717)
Gross profit		**3,054**	6,190
Other income	*4*	**1,686**	13
Other gains and losses	*5*	**463**	4,102
Amortisation expenses		**(5,676)**	(14,553)
Administrative expenses		**(7,352)**	(7,566)
Loss from operations	*7*	**(7,825)**	(11,814)
Finance costs		**(9,435)**	(10,705)
Loss before income tax		**(17,260)**	(22,519)
Income tax	*8*	**967**	2,388
Loss for the period		**(16,293)**	(20,131)
Other comprehensive income:			
Items that may be classified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**4**	–
Other comprehensive income for the period, net of income tax		**4**	–
Total comprehensive loss for the period		**(16,289)**	(20,131)
Loss for the period attributable to owners of the Company		**(16,293)**	(20,131)
Total comprehensive loss for the period attributable to owners of the Company		**(16,289)**	(20,131)
Loss per Share attributable to owners of the Company	*10*		
– Basic and diluted (HK cent(s))		**(0.78)**	(1.20)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the three months ended 30 June 2014

	Share capital HK$'000	Share premium HK$'000	Convertible notes equity reserves HK$'000	Foreign currency translation reserves HK$'000	Other reserves HK$'000	Accumulated losses HK$'000	Total equity HK$'000
As at 1 April 2014	**1,980**	**795,912**	**15,663**	**45**	**9,868**	**(1,231,407)**	**(407,939)**
Loss for the period	–	–	–	–	–	**(16,293)**	**(16,293)**
Other comprehensive income for the period, net of tax: Items that may be classified subsequently to profit or loss: Exchange differences on translating foreign operations	–	–	–	**4**	–	–	**4**
Total comprehensive income/(loss) for the period	–	–	–	**4**	–	**(16,293)**	**(16,289)**
Issue of Shares pursuant to conversion of convertible notes	**281**	**56,045**	**(1,575)**	–	–	–	**54,751**
As at 30 June 2014 (unaudited)	**2,261**	**851,957**	**14,088**	**49**	**9,868**	**(1,247,700)**	**(369,477)**
As at 1 April 2013	1,674	735,089	17,381	–	9,868	(800,115)	(36,103)
Loss and total comprehensive loss for the period	–	–	–	–	–	(20,131)	(20,131)
As at 30 June 2013 (unaudited)	1,674	735,089	17,381	–	9,868	(820,246)	(56,234)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 30 June 2014

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 activities of the Company are investment holding. The subsidiaries are engaged in the provision of waterworks engineering services for the public sector in Hong Kong, television broadcasting business in the Asia-Pacific region (excluding the People's Republic of China (the "PRC")) in return for advertising and related revenue and large outdoor display screen advertisement business in the PRC.

2. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated first quarterly financial statements for the three months ended 30 June 2014 (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 2014. The Directors reviewed and assessed the classification of the Group's investments in joint arrangements in accordance with the requirements of HKFRS 11 "Joint Arrangements". The Directors concluded that the Group's investments in jointly controlled entities under HKAS 31 during the three months ended 30 June 2013 and were accounted for using the equity method, should be classified as joint operations under HKFRS 11.

As a result of the adoption of HKFRS 11, the change in accounting of the Group's investments in joint operations has been applied in accordance with the relevant transitional provisions set out in HKFRS 11. Comparative amounts for 2013 have been restated to reflect the change in accounting for the Group's investments in joint operations.

The effect of the application of HKFRS 11 on the unaudited condensed consolidated first quarterly financial statements for the three months ended 30 June 2013 is as follows:

2. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Impact on the results for the three months ended 30 June 2013 by line items presented in the unaudited condensed consolidated statement of profit or loss and other comprehensive income is as follows:

	Three months ended 30 June 2013 HK$'000
Decrease in revenue	(794)
Decrease in share of loss of jointly controlled entities	663
Decrease in income tax	131
Net change in loss for the period	–

There is no impact on earnings per share.

The Group has adopted new or revised standards, amendments to standards and interpretation of Hong Kong Financial Reporting Standards ("HKFRSs") which are effective for accounting period commencing on or after 1 April 2014. The adoption of such new or revised standards, amendments to standards 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.

3. REVENUE

Revenue recognised during the three months ended 30 June 2014 and 2013 were as follows:

	Three months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
		(Restated)
Revenue from construction works	**66,113**	92,604
Advertising income	**1,792**	2,303
	67,905	94,907

4. OTHER INCOME

Other income recognised during the three months ended 30 June 2014 and 2013 were as follows:

	Three months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
		(Restated)
Interest income	**2**	12
Waiver of the interests on convertible notes	**1,683**	–
Sundry income	**1**	1
	1,686	13

5. OTHER GAINS AND LOSSES

Other gains and losses recognised during the three months ended 30 June 2014 and 2013 were as follows:

	Three months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
		(Restated)
Exchange gain, net	**3**	80
Net gains on disposal of property, plant and equipment	**477**	8
Realised loss arising on change in fair value of financial assets at fair value through profit or loss	**(17)**	–
Unrealised gain arising on change in fair value of financial assets at fair value through profit or loss	**–**	4,014
	463	4,102

6. 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 engineering services – provision of waterworks engineering services, road works and drainage services and site formation works for public sector in Hong Kong;

(ii) Television broadcasting business – the 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; and

(iii) Large outdoor display screen advertisement business – the business of broadcasting advertisements on large outdoor display screens in the PRC.

Each of these operating segments is managed separately as each of the product and service lines requires different resources as well as marketing approaches.

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segment.

For the three months ended 30 June 2014

	Provision of waterworks engineering services (Unaudited) HK$'000	Television broadcasting business (Unaudited) HK$'000	Large outdoor display screen advertisement business (Unaudited) HK$'000	Elimination (Unaudited) HK$'000	Total (Unaudited) HK$'000
Revenue from external customers	66,113	1,776	16	–	67,905
Inter-segment sales	–	508	–	(508)	–
Other income and gains	477	–	4	–	481
Reportable segment revenue	66,590	2,284	20	(508)	68,386
Reportable segment results	1,762	(6,458)	(799)		(5,495)
Unallocated corporate income					1,686
Unallocated expenses					(4,016)
Finance costs					(9,435)
Loss before income tax					(17,260)

6. SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

For the three months ended 30 June 2013 (Restated)

	Provision of waterworks engineering services (Unaudited) HK$'000	Television broadcasting business (Unaudited) HK$'000	Total (Unaudited) HK$'000
Revenue from external customers	92,604	2,303	94,907
Other income and gains	18	69	87
Reportable segment revenue	92,622	2,372	94,994
Reportable segment results	3,349	(14,501)	(11,152)
Unallocated corporate income			4,028
Unallocated expenses			(4,690)
Finance costs			(10,705)
Loss before income tax			(22,519)

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales for the three months ended 30 June 2013.

Segment profit/(loss) represents the profit earned/loss incurred by each segment without allocation of interest income, finance costs, realised loss arising on change in fair value of financial assets at fair value through profit or loss, unrealised gain arising on change in fair value of financial assets at fair value through profit or loss and income tax credit. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

7. LOSS FROM OPERATIONS

Loss from operations is arrived at after charging the following:

	Three months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Amortisation of intangible assets (included in amortisation expenses)	**5,475**	14,518
Amortisation of film rights (included in amortisation expenses)	**201**	35
Depreciation of property, plant and equipment	**4,447**	3,332

8. INCOME TAX

The amount of income tax in the unaudited condensed consolidated statement of profit or loss and other comprehensive income represents:

	Three months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
		(Restated)
Current tax – Hong Kong profits tax		
– current period	**(79)**	153
Deferred tax		
– current period	**(888)**	(2,541)
Income tax credit	**(967)**	(2,388)

Hong Kong profits tax is calculated at 16.5% (2013: 16.5%) on the estimated assessable profits during the three months ended 30 June 2014 and 2013.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the "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 profits arising in Macau during the three months ended 30 June 2014 and 2013.

No provision for PRC Enterprise Income tax has been made as the subsidiary incorporated in the PRC has no assessable profits arising in the PRC during the three months ended 30 June 2014.

9. DIVIDENDS

The Board does not recommend the payment of any dividend for the three months ended 30 June 2014 and 2013.

10. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculations of basic loss per Share for the three months ended 30 June 2014 is based on the unaudited consolidated loss of approximately HK$16,293,000 attributable to owners of the Company for the three months ended 30 June 2014 (three months ended 30 June 2013: approximately HK$20,131,000) and the weighted average number of 2,091,869,550 Shares in issue for the three months ended 30 June 2014 (three months ended 30 June 2013: 1,674,735,664 Shares) as if they had been in issue throughout the period.

Diluted loss per Share for the three months ended 30 June 2014 and 2013 were not presented as the potential ordinary Shares had an anti-dilutive effect on the basic loss per Share for the three months ended 30 June 2014 and 2013.

11. SHARE CAPITAL

	Note	Number of Shares	Nominal value HK$'000
Authorised:			
As at 1 April 2014 and 30 June 2014 (unaudited)		500,000,000,000	500,000
Issued and fully paid:			
As at 1 April 2014 (unaudited)		1,980,858,112	1,980
Issue of Shares pursuant to conversion of convertible notes	*(a)*	280,612,245	281
As at 30 June 2014 (unaudited)		2,261,470,357	2,261

Note:

(a) On 26 May 2014, APT Satellite TV Development Limited and China Xinhua News Network Co., Limited ("China Xinhua NNC"), the convertible note holders, exercised their conversion rights to convert the principal amount of HK$35,000,000 and HK$20,000,000 of convertible notes into 178,571,429 Shares and 102,040,816 Shares respectively. The excess of the conversion price over the nominal value of Shares was credited to share premium of the Company.

12. EVENTS AFTER THE REPORTING PERIOD

(a) On 3 July 2014, the Company entered into a placing agreement with Gransing Securities Co., Limited pursuant to which the Company agreed to place a maximum of 334,900,000 new Shares to not less than six placees at a price of HK$0.25 per placing Share. The placing of new Shares was completed on 17 July 2014 and raised gross proceeds of approximately HK$83.7 million. Further details were set out in the announcements of the Company dated 3 July 2014, 4 July 2014 and 17 July 2014 respectively.

(b) On 18 July 2014, a convertible note holder exercised its conversion right to convert the principal amount of HK$60,000,000 of convertible notes into 306,122,448 Shares.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group is principally engaged in the provision of waterworks engineering services for the public sector in Hong Kong, television broadcasting business in the Asia-Pacific region (excluding the PRC) in return for advertising and related revenue and large outdoor display screen advertisement business in the PRC. During the three months ended 30 June 2014 (the "Period"), the Group continued to focus on rendering waterworks engineering services for the public sector in Hong Kong and develop its television broadcasting business and large outdoor display screen advertisement business.

Provision of waterworks engineering services

During the Period, the Group has been undertaking two main contracts and six subcontracts. Among the eight contracts, five are related to provision of waterworks engineering services and the 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	8/WSD/11	Construction of Pak Shek Kok Fresh Water Service Reservoir Extension
	3/WSD/13	Mainlying near She Shan Tsuen, Tai Po
Subcontracts	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
	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
	5/WSD/13	Replacement and rehabilitation of water mains, stage 4 phase 1 and stage 4 phase 2 – mains in northern and eastern New Territories

During the Period, the two contracts with contracts numbered 5/WSD/13 and DC/2012/07 were the main contributors to the Group's revenue, which generated approximately HK$31.8 million and HK$9.9 million, constituting approximately 46.8% and 14.6% of the Group's total revenue respectively.

Television broadcasting business

The Group's news coverage and television programmes place itself in a unique position among the television broadcasters worldwide. Currently, it is broadcasting the television programmes relating to information contents from Xinhua News Agency in Hong Kong, Macau, Thailand, New Zealand, Mongolia, Malaysia, Laos and Australia. The Group maintained good relationship with those television service providers that are currently working with and in the meantime, actively sought for cooperation opportunities with strategic partners in order to give customers a unique viewing experience and expansion in worldwide coverage of China Xinhua News Network Channel and China Xinhua News Network World Channel (collectively the "CNC Channels").

Currently, the Group has enriched the content of "Hong Kong Voice Express" by integrating the programmes with entertainment and sports news in Hong Kong in order to reflect and keep track of current move in Hong Kong. The revised edition of "Hong Kong Voice Express" has been broadcasted in April 2014 with good response from audience. With the great success of television programmes "Hong Kong, Hong Kong" and "ICAC", the Company is producing a documentary television feature programme for the purpose of marking the 15th anniversary of the transfer of sovereignty over Macau to the PRC. In the future, the Group will continue to produce information contents according to different social themes.

Large outdoor display screen advertisement business

Over the past years, the Group took initiatives to tap into the PRC market by developing the large outdoor display screen advertisement business. During the year ended 31 March 2014, the Group has constructed and installed LED displays in Sichuan Chengdu, Jiangsu Xuyi and Jiangsu Kunshan and set up the networked LED control platform in which the LED displays can be managed and connected through a centralized network. Despite the challenging business environment, the Group has actively seized business opportunities and sought for expansion of business during the adversities. Going forward, the Group will continue to negotiate with potential customers, including but not limited to commercial real estate developers, PRC government authorities and other potential partners for cooperation in order to balance the risk and return of this competitive segment.

Aimed at maximising 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$67.9 million (2013: approximately HK$94.9 million), representing an decrease of approximately 28.5% as compared with that for the same period of the previous year. The revenue derived from provision of waterworks engineering services and television broadcasting business as well as large outdoor display screen advertisement business constituted approximately 97.4% and 2.6% of the Group's total revenue respectively. The decrease in revenue was mainly due to large portion of revenue derived from certain waterworks engineering projects was recognised at the early stage in the prior years. The Group derived aggregate advertising revenue of approximately HK$1.8 million (2013: approximately HK$2.3 million) from television broadcasting business and large outdoor display screen advertisement business.

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$46.8 million (2013: approximately HK$89.4 million), representing approximately 69.0% of the total revenue for the Period (2013: approximately 94.2%). On the other hand, the aggregate revenue generated from the undertaking of waterworks contracts in the capacity of a main contractor and jointly controlled operator amounted to approximately HK$19.3 million (2013: approximately HK$3.2 million), representing approximately 28.4% (2013: approximately 3.4%) of the total revenue for the Period.

Cost of services

The Group's cost of services decreased by approximately 26.9% to approximately HK$64.9 million for Period (2013: approximately HK$88.7 million) as compared with that for the same period of the previous year. The Group's cost of services mainly includes costs of construction services, costs of television broadcasting business and direct costs attributable to large outdoor display screen advertisement business. Costs of construction services mainly comprise raw materials, direct labour and subcontracting fee for services provided by the subcontractors. Costs of television broadcasting business mainly comprise transmission costs and broadcasting fee. Transmission costs comprise satellite transmission fee and carriage fee payable to satellite operators while broadcasting fee comprises annual fee payable to media broadcasting providers and China Xinhua NNC. Direct costs attributable to large outdoor display screen advertisement business mainly comprise depreciation charges of LED display screens and control room.

Gross profit

The gross profit of the Group for the Period decreased by approximately 50.7% to approximately HK$3.1 million (2013: approximately HK$6.2 million) as compared with that for the same period of the previous year. The gross profit margin of the Group decreased to approximately 4.5% for the Period (2013: approximately 6.5%). The decrease in gross profit and gross profit margin was largely due to large portion of revenue and gross margin derived from certain waterworks engineering projects recognised at the early stage in the prior years.

Other income

The Group's other income for the Period amounted to approximately HK$1.7 million (2013: approximately HK$13,000). The increase in other income was mainly due to the waiver of convertible notes interests from a noteholder during the Period.

Other gains and losses

The Group's other gains and losses for the Period decreased by approximately 88.7% to approximately HK$0.5 million (2013: approximately HK$4.1 million) as compared with that for the same period of the previous year. The decrease in other gains and losses was mainly due to the decrease in net fair value changes on financial assets at fair value through profit or loss recognised during the Period.

Amortisation expenses

The Group's amortisation expenses for the Period decreased by approximately 61.0% to approximately HK$5.7 million (2013: approximately HK$14.6 million) as compared with that for the same period of the previous year. The amortisation expenses mainly consisted of amortisation of television broadcasting right and film rights for the television broadcasting business. The decrease in amortisation expenses was mainly due to the impairment loss of television broadcasting right recognised for the year ended 31 March 2014 and thus caused a significant reduction in carrying amount of television broadcasting right.

Administrative expenses

The Group's administrative expenses for the Period decreased by approximately 2.8% to approximately HK$7.4 million (2013: approximately HK$7.6 million) as compared with that for the same period of the previous year. The administrative expenses mainly consisted of legal and professional fees, staff costs (including Directors' remuneration), depreciation expenses and rental expenses.

Finance costs

The Group's finance costs for the Period decreased by approximately 11.9% to approximately HK$9.4 million (2013: approximately HK$10.7 million) as compared with that for the same period of the previous year. The finance costs mainly consisted of interest expenses for the promissory note and convertible notes. The decrease in finance costs was mainly due to decrease in interest expenses of convertible notes as certain convertible notes holders exercised their conversion rights during the Period.

Net Loss

The net loss attributable to owners of the Company for the Period decreased by approximately 19.1% to approximately HK$16.3 million (2013: approximately HK$20.1 million) as compared with that for the same period of previous year. The decrease in net loss was mainly resulted from decrease in amortisation expenses for the Period.

Loss per Share

The basic loss per Share was approximately HK0.78 cent (2013: approximately HK1.20 cents).

Prospects

During the Period, the respective established brandnames of the Group are given full play in our vigorously developed three main businesses, namely provision of waterworks engineering services, television broadcasting business and large outdoor display screen advertisement business. In addition to television and LED platforms, the Group has been growing its advertising base through mobile and other platforms and diversified its business to video broadcasting business in the Greater China region while the provision of waterworks engineering services will continue to contribute stable revenue to the Group. In order to continue expanding our network in a manner that is attractive to potential advertising clients, the Group has to continue to enter into new advertising media platforms and establish additional networks that provide effective channels for advertisers. The Directors are optimistic towards its core businesses and will seize the business opportunities to achieve long-term sustainable growth for the benefits of the Group and its shareholders as a whole.

Provision of waterworks engineering services

The Group's waterworks engineering services remains the major source of revenue of the Group. The performance of the Group's waterworks engineering business was comparable with that for 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 had 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 had commenced in January 2012 and will be completed in 2015. About 350 kilometres of water mains will be replaced and rehabilitated at this stage.

Despite the economy of Hong Kong and intensity competition in this industry combining with tight labor market, increase in rent, staff cost and cost of raw materials, the outlook for the construction industry in Hong Kong remains optimistic. Nevertheless, the Group has still achieved profitable segment result. Not only will the R&R Programme launched by WSD continue to open up numerous waterworks opportunities to the Group, the infrastructure and development projects being currently implemented or to be implemented by the Government of Hong Kong, roads and drainage works and site formation works will also create tremendous business opportunities to the Group in the future. 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 contracts in Hong Kong and to further scale up the Group's business. The Group will continue to seek improvement in cost-savings, Group's efficiency and profitability and identify opportunities for joint ventures or strategic alliances in a bid to drive its strategy of vertical as well as horizontal expansion.

Television broadcasting business

Drawing on the brand name of and backup from Xinhua News Agency, the Group is positioned to capture the opportunities arising from this business segment with relatively low initial entry barrier. The Group has developed a broadcasting network of television channels with relatively extensive scale. In the view of significant loss incurred in this segment for the year ended 31 March 2014, the immediate task of the Group is to achieve a turnaround in its profitability of this business segment. In face of the difficult operation environment, the Group will offer different valuable services continuously in response to market needs. With an aim to explore development opportunities and increase coverage of CNC Channels, the Group continued to strengthen and rejuvenate its marketing and sales team internally. By 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 additional advertising and related revenue to the Group in the future.

Large outdoor display screen advertisement business

Upon completion of construction and installation of LED displays in Sichuan Chengdu, Jiangsu Xuyi and Jiangsu Kunshan, the Group aims at constructing more LED displays in other PRC cities, including Nanjing and Yangzhou and preliminary site reconnaissance work has been completed. With the view of fierce industry competition, the Group has formed a joint operation arrangement in July 2014 with an independent party in respect of construction and operation of LED displays in Yangzhou jointly. This new business mode could benefit from the synergy arose from joint operation and thus increase the effectiveness on cost-saving and obtain higher profit growth. Meanwhile, the Group will look for new business opportunities from time to time, including but not limited to negotiating with potential commercial real estate developers, PRC government authorities and other potential partners to strengthen its market position and boost up the development of this business segment.

Video broadcasting business

On 27 December 2013, the Group entered into a licence agreement (the "Licence Agreement") with The Associated Press (the "AP"), pursuant to which the Group and AP will work together to create and launch a Greater China market video service for the mobile platforms of three China national telecommunication operators. The Group, in close working consultation with AP, would license selected Sports News Television sports news video, AP technology news video, AP horizons video and AP archive video, and distribute such videos via the video platforms of the telecommunication operators to the mobile phone users in the PRC, Hong Kong and Macau. Such videos cover selected matches from NBA, NHL, PGA, soccer, tennis, etc. In order to develop this business segment and tape into the Greater China market, the Group has currently conducted studies on the business structure, including but not limited to the income stream, marketing strategy and other costs incurred. The Directors believed that it is another key source of income in the future.

Despite the ever-changing economic environment, the Group continues to maximize its profit by utilizing existing resources efficiently and maximizing synergic effects between business segments. The Group will continue to strive for diversifying its business, strengthening the development of existing business, reinforcing internal controls and implementing stringent control over the costs in order to achieve stable profit growth of the Group and in turn, maximise the shareholders' returns.

DIVIDENDS

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

SHARE OPTION SCHEME

A share option scheme 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 30 June 2014, 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	Capacity/Nature of interest	Number of Shares held	Number of underlying Shares under convertible notes *(Note c)*	Total interests	Percentage of aggregate interests to total issued share capital
Dr. Lee Yuk Lun ("Dr. Lee") *(Note a)*	Interest in controlled corporation	–	140,000,001	140,000,001	6.19%
Mr. Kan Kwok Cheung ("Mr. Kan") *(Note b)*	Interest in controlled corporation	220,590,000	–	220,590,000	9.76%
Mr. Chia Kar Hin, Eric John ("Mr. Chia")	Beneficial owner	5,500,000	–	5,500,000	0.24%

Notes:

(a) Dr. Lee is the sole beneficial owner of Proud Glory Investments Limited ("Proud Glory"), which was interested in 140,000,001 underlying Shares. Under the SFO, Dr. Lee is deemed to be interested in all the underlying Shares held by Proud Glory.

(b) Mr. Kan is the sole beneficial owner of Shunleetat (BVI) Limited ("Shunleetat"), which was interested in 220,590,000 Shares. Under the SFO, Mr. Kan is deemed to be interested in all the Shares held by Shunleetat.

(c) Details of the convertible notes were set out in the circular of the Company dated 19 November 2011.

Saved as disclosed above, as at 30 June 2014, 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 30 June 2014, 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 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:

	Number of Shares held			Number of underlying Shares under convertible notes *(Note a)*			
Name	**Beneficial owner**	**Interest in controlled corporation**	**Spouse interest**	**Beneficial owner**	**Interest in controlled corporation**	**Total interests**	**Percentage of aggregate interests to total issued share capital**
China Xinhua NNC	678,417,296 *(Note b)*	–	–	1,821,582,704 *(Note b)*	–	2,500,000,000	110.55%
中國新華新聞電視網有限公司 ("CNC China")	–	678,417,296 *(Note b)*	–	–	1,821,582,704 *(Note b)*	2,500,000,000	110.55%
Proud Glory	–	–	–	140,000,001 *(Note c)*	–	140,000,001	6.19%
Ms. Lam Shun Kiu, Rosita	–	–	220,590,000 *(Note d)*	–	–	220,590,000	9.76%
Shunleetat	220,590,000 *(Note d)*	–	–	–	–	220,590,000	9.76%
APT Satellite TV Development Limited	178,571,429 *(Note e)*	–	–	–	–	178,571,429	7.90%
APT Satellite Holdings Limited	–	178,571,429 *(Note e)*	–	–	–	178,571,429	7.90%

Name	Number of Shares held: Beneficial owner	Number of Shares held: Interest in controlled corporation	Number of Shares held: Spouse interest	Number of underlying Shares under convertible notes *(Note a)*: Beneficial owner	Number of underlying Shares under convertible notes *(Note a)*: Interest in controlled corporation	Total interests	Percentage of aggregate interests to total issued share capital
APT Satellite International Company Limited	–	178,571,429 *(Note e)*	–	–	–	178,571,429	7.90%
中國航天科技集團公司	–	178,571,429 *(Note e)*	–	–	–	178,571,429	7.90%
中國衛星通信集團有限公司	–	178,571,429 *(Note e)*	–	–	–	178,571,429	7.90%
Murtsa Capital Management Limited	173,341,632 *(Note f)*	–	–	548,775,510 *(Note f)*	–	722,117,142	31.93%
HEC Development Limited	–	173,341,632 *(Note f)*	–	–	548,775,510 *(Note f)*	722,117,142	31.93%
HEC Capital Limited	–	173,341,632 *(Note f)*	–	–	548,775,510 *(Note f)*	722,117,142	31.93%

Notes:

(a) *Details of the convertible notes were set out in the circular of the Company dated 19 November 2011.*

(b) *China Xinhua NNC is wholly and beneficially owned by CNC China. Accordingly, CNC China is deemed to be interested in 678,417,296 Shares and 1,821,582,704 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 140,000,001 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 220,590,000 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 220,590,000 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 178,571,429 Shares held by APT Satellite TV Development Limited under the SFO.*

(f) *HEC Development Limited and HEC Capital Limited are controlling shareholders, either directly or indirectly, of Murtsa Capital Management Limited. Accordingly, HEC Development Limited and HEC Capital Limited are deemed to be interested in 173,341,632 Shares and 548,775,510 underlying Shares held by Murtsa Capital Management Limited under the SFO.*

Saved as disclosed above, as at 30 June 2014, 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.

CONNECTED TRANSACTIONS

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

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. 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 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, 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 million plus 40% of part of advertising revenue derived from the Partial Advertisement Operation Right in excess of RMB90 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 and 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.

On 21 May 2014, AVIC Culture and CNC China have mutually agreed in writing to terminate the Advertisement Operation Cooperation Contract (the "AVIC Termination"). As such, AVIC Culture will not settle the remaining amount of advertising fee due to CNC China which would then be paid to China Xinhua NNC and the Group due to the termination of the initial public offering application of AVIC Culture as announced by China Securities Regulatory Commission in April 2014. Accordingly, CNC China, China Xinhua NNC and the Group have mutually agreed to terminate the CNC Agreement and the Advertisement Broadcasting Contract (collectively the "CNC Terminations") on the same day. The Board confirms that none of AVIC Culture, CNC China, China Xinhua NNC and the Group has to pay the other party any penalty and/or compensation as a result of the AVIC Termination and the CNC Terminations and none of CNC China, China Xinhua NNC and the Group has to return any of the instalment payment previously received as part of the Payment under the Partial Advertisement Operation Right.

As a result of the AVIC Termination and the CNC Terminations, the outstanding accounts receivable due from China Xinhua NNC in respect of advertisement operation cooperation with AVIC Culture of approximately HK$9.4 million was assessed to be irrecoverable. In view of this, the Company has written off the aforesaid accounts receivable of approximately HK$9.4 million for which the Company has made a full provision as at 31 March 2014. In addition, the Group will reduce both the revenue from China Xinhua NNC in respect of the advertisement operation cooperation with AVIC Culture and the profit of the Group for an estimated amount of approximately HK$9.3 million per year in the subsequent years from 1 April 2014 till 25 August 2016. Apart from the above-mentioned financial impact, the AVIC Termination and the CNC Terminations will not cause any material adverse impact on the existing business or operation of the Group.

CRU Framework Agreement

On 19 December 2012, CNC China and the Ministry of Commerce of the PRC ("MOFCOM") Department of Foreign Investment Administration（商務部外國投資管理司）entered into an advertisement broadcasting agreement (the "MOFCOM Advertisement Broadcasting Agreement") in relation to the provision of advertising resources of the television channels controlled by CNC China to broadcast advertisements of the MOFCOM Department of Foreign Investment Administration.

On 25 December 2012, Sichuan Branch of Xinhua News Agency and Yibin Wuliangye Liquor Sales Co., Ltd entered into an advertisement broadcasting agreement (the "Wuliangye Advertisement Broadcasting Agreement") in relation to the provision of advertising resources of the television channels controlled by CNC China to broadcast advertisements of Yibin Wuliangye Liquor Sales Co., Ltd. On 22 July 2013, CNC China and Sichuan Branch of Xinhua News Agency entered into an advertisement broadcasting authorisation agreement (the "Wuliangye Advertisement Broadcasting Authorisation Agreement") in relation to the provision of advertising resources of the television channels controlled by CNC China to broadcast advertisements of Yibin Wuliangye Liquor Sales Co., Ltd.

To support the operation of the Company, on 22 July 2013, the Company and CNC China entered into a channel resources usage framework agreement (the "CRU Framework Agreement"), pursuant to which the Company will and will procure its subsidiaries to provide advertising resources on the television channels controlled by the Company to CNC China and its associates for the advertisement business of independent third party clients undertook by them. As consideration, CNC China and its associates will pay advertisement broadcasting fees to the Company and its subsidiaries. The CRU Framework Agreement will have a term of 3 years ending on 31 March 2016.

In order to implement the CRU Framework Agreement, on 22 July 2013, Xinhua TV Asia-Pacific entered into a channel resources usage agreement (the "MOFCOM CRU Agreement") with CNC China, pursuant to which Xinhua TV Asia-Pacific agreed to provide advertising resources on its television channels for broadcasting advertisements of the MOFCOM Department of Foreign Investment Administration. On the same day, Xinhua TV Asia-Pacific entered into a channel resources usage agreement (the "Wuliangye CRU Agreement") with CNC China pursuant to which Xinhua TV Asia-Pacific agreed to provide advertising resources on its television channels for broadcasting advertisements of Yibin Wuliangye Liquor Sales Co., Ltd. Both MOFCOM CRU Agreement and Wuliangye CRU Agreement became effective on 22 July 2013 and will end on 31 March 2016.

As consideration for using such advertising resources, CNC China will pay the Group 50% of the advertisement broadcasting fees (after deducting applicable PRC taxes) it receives from the MOFCOM Department of Foreign Investment Administration under the MOFCOM Advertisement Broadcasting Agreement (including those received before the effectiveness of the MOFCOM CRU Agreement); and 50% of the advertisement broadcasting fees (after deducting applicable PRC taxes) it receives from Sichuan Branch of Xinhua News Agency under the Wuliangye Advertisement Broadcasting Authorisation Agreement (including those received before the effectiveness of the Wuliangye CRU Agreement). Such advertisement broadcasting fees that CNC China are entitled to equal to 30% of the advertisement broadcasting fees that Sichuan Branch of Xinhua News Agency receives from Yibin Wuliangye Liquor Sales Co., Ltd. under the Wuliangye Advertisement Broadcasting Agreement (including those received before the effectiveness of the Wuliangye Advertisement Broadcasting Authorisation Agreement).

Since CNC China is a substantial shareholder and a connected person of the Company within the meaning of the GEM Listing Rules, the transactions contemplated under the CRU Framework Agreement constitute continuing connected transactions for the Company pursuant to Chapter 20 of the GEM Listing Rules.

Announcement Posting Agreements

On 11 June 2014 and 30 June 2013, the Company entered into agreements (the "Announcement Posting Agreements") with Hong Kong Listco Limited ("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 2014 and 1 July 2013 respectively. HKLC is a company incorporated in Hong Kong and is wholly and beneficially owned by Mr. Chia. The Company considers it more cost effective to engage a professional firm to take up this report posting obligation after listing.

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 requirement under Chapter 20 of the GEM Listing Rules because the highest applicable percentage ratio of the annual 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.

Also pursuant to Rule 20.41 of the GEM Listing Rules, the transactions contemplated under the CRU Framework Agreement are subject to the applicable reporting, announcement and annual review requirements but exempt from independent shareholders' approval requirement under Chapter 20 of the GEM Listing Rules because the highest applicable percentage ratio of the annual caps (including the proposed annual caps of the transactions under Advertisement Broadcasting Contract as mentioned above), 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 CRU Framework Agreement.

As 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%, and that the Announcement Posting Agreements were entered into in the ordinary and usual course of business of the Group, the transactions under the Announcement Posting 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, except paragraph A.6.7 of the Code. This report further illustrates in detail as to how the Code was applied, inclusive of the considered reasons for any deviation throughout the Period.

Paragraph A.6.7 of the Code requires that independent non-executive directors and non-executive directors shall attend general meetings and develop a balanced understanding of the views of shareholders. Three executive Directors, namely Mr. Wu Jin Cai, Dr. Lee Yuk Lun and Mr. Kan Kwok Cheung, two non-executive Directors, namely Mr. Li Yong Sheng and Ms. Liang Hui and two independent non-executive Director, namely Mr. Jin Hai Tao and Mr. Chu Siu Lun, Ivan did not attend the annual general meeting of the Company held on 31 July 2014 due to overseas commitment and pre-arranged business engagements. Other Board members, the chairmen of the relevant Board committees and the external auditor of the Company also attended the annual general meeting to inter-face with, and answer questions from the shareholders of the Company.

STRATEGIC DEVELOPMENT COMMITTEE

The strategic development committee of the Company (the "Strategic Development Committee") was established on 7 August 2014. The primary duties of the Strategic Development Committee include studying and reviewing on the mid to long-term strategic development and planning of the Company, making recommendations to the Board regarding the development of strategic planning, major investment and financing proposals, major capital operation and assets operation projects, studying on any other material events which have influence on the development of the Company and monitoring the implementation of the above matters.

The Strategic Development Committee consisted of five members, three of them are executive Directors, one of them is non-executive Director and one of them is independent non-executive Director. The members of Strategic Development Committee are Mr. Wu Jin Cai, Mr. Zou Chen Dong, Mr. Chia Kar Hin, Eric John, Mr. Li Yong Sheng and Mr. Jin Hai Tao. Mr. Wu Jin Cai is the chairman of the Strategic Development Committee.

REMUNERATION COMMITTEE

The Remuneration Committee of the Company (the "Remuneration Committee") was established on 11 August 2010 with terms of reference in compliance with paragraph B.1.2 of the Code.

The primary duties of the Remuneration Committee include, among other things, formulating and making recommendations to the Board on the remuneration policy, determining the specific remuneration packages of all executive Directors and senior management and making recommendations to the Board of the remuneration of non-executive Directors.

The Remuneration Committee consisted of five members, four of them are independent non-executive Directors and one of them is non-executive Director. As at 30 June 2014, the members of the Remuneration Committee are Mr. Jin Hai Tao, Ms. Liang Hui, Mr. Wong Chung Yip, Kenneth, Mr. Hau Chi Kit and Mr. Chu Siu Lun, Ivan. Mr. Jin Hai Tao was the chairman of the Remuneration Committee.

At the meeting held on 7 August 2014, it was resolved that the remunerations of Mr. Zou Chen Dong, the chief executive officer of the Company and the executive Director, and Mr. Chia Kar Hin, Eric John, the vice president of the Company and executive Director, were adjusted from HK$59,000 per month to HK$92,000 per month and from HK$50,000 per month to HK$70,000 per month respectively with effect from 1 August 2014.

At the meeting held on 7 August 2014, it was resolved that the remuneration of the independent non-executive Directors, namely Mr. Jin Hai Tao, Mr. Wong Chung Yip, Kenneth, Mr. Hau Chi Kit and Mr. Chu Siu Lun, Ivan, was adjusted from HK$10,000 per month to HK$12,000 per month with effect from 1 August 2014.

In consideration of the responsibility of Mr. Zou Chen Dong, Mr. Chia Kar Hin, Eric John and independent non-executive Directors and the time and effort spent on their duties, the Board believes the adjusted remuneration is reasonable and in line with the Directors' remuneration policy of the Company.

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 C.3.3 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 30 June 2014, the members of the Audit Committee were Mr. Wong Chung Yip, Kenneth, Mr. Li Yong Sheng, Ms. Liang Hui, Mr. Jin Hai Tao, Mr. Hau Chi Kit, and Mr. Chu Siu Lun, Ivan. Mr. Wong Chung Yip, Kenneth 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.

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

Hong Kong, 7 August 2014

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
Mr. Kan Kwok Cheung
Mr. Chia Kar Hin, Eric John

Non-executive Directors:
Mr. Li Yong Sheng
Ms. Liang Hui

Independent non-executive Directors:
Mr. Jin Hai Tao
Mr. Wong Chung Yip, Kenneth
Mr. Hau Chi Kit
Mr. Chu Siu Lun, Ivan