China Chief Cable TV Group Limited

(Incorporated in Bermuda with limited liability)
Websites: http://www.m21.com.hk

THIRD QUARTERLY REPORT
2005

Quarterly ended
31st December 2005

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

THIRD QUARTER RESULTS

The board of directors (the "Board") of China Chief Cable TV Group Limited (the "Company") present the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months and nine months ended 31st December 2005, together with the comparative figures for the corresponding periods in 2004 as follows:

		Three months ended 31st December		**Nine months ended 31st December**	
		2005	2004	**2005**	2004
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover	*2*	**4,394**	3,309	**11,729**	9,335
Cost of sales		**(2,962)**	(2,711)	**(9,540)**	(5,987)
Gross profit		**1,432**	598	**2,189**	3,348
Other revenue		**485**	–	**1,392**	–
General, administrative and other expenses		**(4,630)**	(4,409)	**(15,091)**	(8,473)
Operating loss		**(2,713)**	(3,811)	**(11,510)**	(5,125)
Finance costs		**(825)**	(208)	**(2,324)**	(287)
Loss attributable to shareholders		**(3,538)**	(4,019)	**(13,834)**	(5,412)
Basic loss per share	*4*	**(1.13 cents)**	(1.29 cents)	**(4.43 cents)**	(1.73 cents)

Notes:

1. Basis of preparation and principal accounting policies

The results have been prepared in accordance with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.

The accounting policies used in the preparation of the consolidated results are consistent with those used in the 2005 annual accounts except that in the current period, the Group has changed certain of its accounting policies following its adoption, for the first time, of a number of new/revised Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standard ("HKAS") and Interpretations (hereby collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1st January 2005.

The adoption of these new HKFRSs has resulted in a change of certain Group's accounting policies that affected the results for the current or prior accounting periods. The changes to the Group's accounting policies and the effect of adopting these new HKFRSs are set out below.

Business combination

In previous periods, goodwill arising on acquisition was capitalised and amortised over its estimated useful life.

On application of HKFRS 3, goodwill arising on acquisition is measured at cost less accumulated impairment losses after initial recognition. No amortisation is allowed and accordingly no amortisation was provided for the nine months ended 31st December 2005.

Share-based payments

In previous periods, share options granted were not recognised as compensation cost.

HKFRS 2, with retrospective application only to share options granted after 7th November 2002 and not vested at 1st January 2005, requires an expense to be recognised for the fair value of share options granted determined at the date of grant of the share options.

On adoption of HKFRS 2, the fair value of share options granted is expensed on a systematic basis and there is no retrospective application. The effect of such adoption is an increase of expenses of HK$2,250,000 for the nine months ended 31st December 2005.

2. Revenues and turnover

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

	For the three months ended 31st December		**For the nine months ended 31st December**	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Turnover				
Provision of pre-mastering and other media services	**3,056**	1,309	**7,661**	4,040
Provision of audiovisual playout services	**1,306**	1,758	**3,695**	5,053
Provision of TV digitalisation related services	**32**	242	**373**	242
	4,394	3,309	**11,729**	9,335
Other revenue				
Interest income	**485**	–	**1,392**	–
Total revenue	**4,879**	3,309	**13,121**	9,335

3. Taxation

No provision for Hong Kong profits tax and PRC enterprise income tax have been made as the Group had no estimated assessable profit during the three months and nine months ended 31st December 2005 (2004: Nil).

4. **Loss per share**

The calculation of basic loss per share for the three months and nine months ended 31st December 2005 was based on the Group's loss attributable to shareholders of approximately HK$3,538,000 and HK$13,834,000 respectively (2004: approximately HK$4,019,000 and HK$5,412,000 respectively) and on 312,500,000 (2004: 312,500,000) ordinary shares in issue during the period.

No diluted loss per share for the three months and nine months ended 31st December 2005 has been presented, as the exercise of the outstanding share options of the Company during the above periods would result in reducing loss per share, No diluted loss per share for the three months and nine months ended 31st December 2004 was presented as there was no dilutive potential ordinary shares,

5. **Reserves**

Movements in reserves for the nine months ended 31st December 2005 and 2004 are as follows:

	Share premium *HK$'000*	Accumulated losses *HK$'000*	Merger reserve *HK$'000*	Capital reserve *HK$'000*	Total *HK$'000*
At 1st April 2005	27,783	(20,643)	(197)	–	6,943
Share-based Payments	–	–	–	2,250	2,250
Loss for the period	–	(13,834)	–	–	(13,834)
At 31st December 2005	**27,783**	**(34,477)**	**(197)**	**2,250**	**(4,641)**
At 1st April 2004	27,783	(11,675)	(197)	–	15,911
Loss for the period	–	(5,412)	–	–	(5,412)
At 31st December 2004	27,783	(17,087)	(197)	–	10,499

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months and nine months ended 31st December 2005 (2004: Nil).

BUSINESS REVIEW AND FINANCIAL REVIEW

Financial review

For the nine months ended 31st December 2005, the Group recorded a turnover of approximately HK$11,729,000 (2004: approximately HK$9,335,000). The increase was mainly due to the increased demand of playout, pre-mastering and post-production services generated from various new Pay TV channels launched and turnover contribution from TV digitalisation services (a new business segment acquired by the Group in August 2004).

Income from pre-mastering and other media services ("Media Services") accounted for approximately 65% (2004: approximately 43%) of the Group's turnover. Such increase was mainly contributed to the increased number of playout channels as mentioned above. Income from the provision of audiovisual playout services ("Playout Services") accounted for approximately 32% (2004: approximately 54%) of the Group's turnover. The number of playout channels increased while the percentage to the Group's turnover decreased, this was attributed to the discount granted to a customer whose number of playout channels operating with the Company was continuously increasing. Despite such discount, increased channels has bring along ancillary services such as editing, subtitling, sound mixing etc, this has in turn lead to an increase in the income from Media Services.

Income from provision of TV digitalisation related services amounted to approximately HK$373,000 (2004: approximately HK$242,000). The business of Sky Dragon Group has been launched since the fourth quarter of 2004 and the income will be further increased as a result of the process of launching digital television network across the PRC by the PRC government.

The Group generated a gross profit of approximately HK$2,189,000 (2004: approximately HK$3,348,000) out of a total turnover of approximately HK$11,729,000 (2004: approximately HK$9,335,000). The gross profit margin has been decreased from 36% in 2004 to 19% in the current period, mainly due to the fact that not much income has been generated from the provision of TV digitalisation related services yet while certain direct costs such as depreciation and salary expenses has to be incurred. This, together with the discount granted to a customer of Playout Services as mentioned, contributed to the decrease in gross profit margin. But the Directors expected that progressive rate of increase of income from the provision of TV digitalisation related services will soon improve the gross profit margin.

During the period under review, the loss attributable to shareholder was approximately HK$13,834,000 (2004: approximately HK$5,412,000). Such loss was mainly attributable to the provision of TV digitalisation related services whose business requires heavy investment, including machinery and manpower. However, the Directors believe that such loss will be diminished with a view to the gradual but finally complete roll out of digital television network across the PRC.

BUSINESS PURSUITS AND PROSPECTS

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

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

The income from our core business, Media Services are growing continuously due to the increase in number of playout channels related to the boom in Pay TV industry started in 2004, which created demand for the Group's services and generated opportunities for the Group to take on more channels at an optimal cost. The Directors expected that the number of channels will further increase in Hong Kong and due to the complete success in the Hong Kong market, the Group has considered the feasibility of managing playout channels in the South East Asia countries especially those with large Chinese-related population. The Group is now managing a playout channel in Malaysia started from early September 2005. The channel was running smoothly since then. This encouraging start has further strengthen the confidence of the Group on targeting the South East Asia market.

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

During the period, the Group has signed an agreement with Hospital Management and Research Division of the Ministry of Health, the PRC and China Quality Standard Research Centre – Quality Certification Centre under General Administration of Quality Supervision, Inspection and Quarantine of the PRC to form a joint venture ("JV") named as Beijing Medical Standardization Database Company Limited.

The total investment of the JV is RMB50 million and the Group owns a 9% stake. The JV will help standardize medical terminology and records in the PRC through compiling books and e-platform. The JV will tap into a network of more than 500,000 hospitals and clinics which are slated to carry out digitalization according to the policy of the Ministry of Health, the PRC. Through the e-platform, the JV aims for a seamless integration of all the medical information of the patients nationwide and allows the insurance companies and government bodies to keep track of the very latest information up to the minute search. At the date of this announcement, the JV is pending complete registration and approval from authorities of its incorporation.

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

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

As at 31st December 2005, the interests and short positions of the directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Future Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company were as follows:

(a) Ordinary shares of HK$0.01 each in China Chief Cable TV Group Limited

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

Notes:

(a) 80,000,000 shares are held by Sino Regal Holding Limited ("SRH"), a company in which Mr. LAW Kwok Leung and Mr. CHAN Kwok Sun, Dennis have an equity interests of 70% and 30% therein respectively.

(b) 31,718,750 shares are held by Sino Unicorn Technology Limited ("Sino Unicorn"), a company in which Mr. FENG Xiao Ping has an indirect interest of 51% therein.

(b) Share Option

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

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

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

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 31st December 2005, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital.

Name of shareholders	Number of shares	Percentage of share capital *(%)*
SRH	80,000,000	25.6
Sino Unicorn	31,718,750	10.15
Random Services Limited ("Random Services") *(note (a))*	31,718,750	10.15
Yang Fuguang *(note (a))*	31,718,750	10.15

Note:

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

Save as disclosed above and "Directors' and Chief Executives' interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation", the Company had no notice of any interests and short positions to be recorded under Section 336 of the SFO as at 31st December 2005.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its listed securities during the three months and nine months ended 31st December 2005. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the three months and nine months ended 31st December 2005.

CORPORATE GOVERNANCE

The Company has been in compliance with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules as at 31st December 2005.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the period under review, the Company continued to adopt a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had also made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by the Directors.

COMPETING BUSINESS

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

AUDIT COMMITTEE

The Company has established an audit committee comprising three independent non-executive directors and has adopted the terms of reference governing the authority and duties of the audit committee. The present members of the audit committee are Mr. Sousa Richard Alvaro, Mr. Carl Chang and Mr. Ngai Wai Fung. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control of the Group.

On Behalf of the Board
Tong Hing Chi
Chairman

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

Hong Kong, 10th February 2006