

# **CHINA CHIEF CABLE TV GROUP LIMITED**

(Incorporated in Bermuda with limited liability)

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

(Stock Code: 8153)



## **THIRD QUARTERLY REPORT 2006**

Quarterly ended  
31st December 2006

**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 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 2006, together with the comparative figures for the corresponding periods in 2005 as follows:

#### UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three months and nine months ended 31st December 2006

	Notes	Three months ended 31st December		Nine months ended 31st December	
		2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Turnover	2	3,147	4,394	9,720	11,729
Cost of sales		(2,735)	(2,962)	(8,447)	(9,540)
Gross profit		412	1,432	1,273	2,189
Other revenue		17	485	60	1,392
General, administrative and other expenses		(3,443)	(4,630)	(11,024)	(15,091)
Operating loss		(3,014)	(2,713)	(9,691)	(11,510)
Finance costs		(888)	(825)	(2,607)	(2,324)
Loss attributable to shareholders		(3,902)	(3,538)	(12,298)	(13,834)
Basic loss per share	4	(1.25 cents)	(1.13 cents)	(3.94 cents)	(4.43 cents)

#### UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 31st December 2006

	Share capital HK\$'000	Share premium HK\$'000	Accumulated losses HK\$'000	Merger reserve HK\$'000	Share-based payment reserve HK\$'000	Exchange reserve HK\$'000	Total HK\$'000
At 1st April 2005, as previously reported	3,125	27,783	(20,643)	(197)	—	—	10,068
Prior period adjustment arising from change in accounting policy	—	—	—	—	6,000	—	6,000
As restated	3,125	27,783	(20,643)	(197)	6,000	—	16,068
Loss for the period	—	—	(13,834)	—	—	—	(13,834)
At 31st December 2005	3,125	27,783	(34,477)	(197)	6,000	—	2,234
At 1st April 2006	3,125	27,783	(41,320)	(197)	6,000	202	(4,407)
Loss for the period	—	—	(12,298)	—	—	—	(12,298)
At 31st December 2006	3,125	27,783	(53,618)	(197)	6,000	202	(16,705)

Notes:

**1. Basis of preparation**

The results have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). They have been prepared under the historical cost convention.

The accounting policies and methods of computation adopted in the preparation of these unaudited consolidated accounts are consistent with those set out in the annual financial statements for the year ended 31st March 2006. The consolidated results are unaudited but have been reviewed by the Company’s audit committee.

**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	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Turnover				
Provision of pre-mastering and other media services	2,221	3,056	6,448	7,661
Provision of audiovisual playout services	888	1,306	3,144	3,695
Provision of TV digitalisation related services	38	32	128	373
	<u>3,147</u>	<u>4,394</u>	<u>9,720</u>	<u>11,729</u>
Other revenue				
Interest income	15	473	58	1,366
Others	2	12	2	26
	<u>17</u>	<u>485</u>	<u>60</u>	<u>1,392</u>
Total revenue	<u><b>3,164</b></u>	<u><b>4,879</b></u>	<u><b>9,780</b></u>	<u><b>13,121</b></u>

**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 2006 (2005: Nil).

**4. Loss per share**

The calculation of basic loss per share for the three months and nine months ended 31st December 2006 was based on the Group’s loss attributable to shareholders of approximately HK\$3,902,000 and HK\$12,298,000 respectively (2005: approximately HK\$3,538,000 and HK\$13,834,000 respectively) and on 312,500,000 (2005: 312,500,000) ordinary shares in issue during the period.

No diluted loss per share for 2006 and 2005 has been presented, as the exercise of the outstanding share options of the Company during the three months and nine months ended 31st December 2006 and 2005 would result in reducing loss per share.

## **INTERIM DIVIDEND**

The Board does not recommend the payment of an interim dividend for the three months and nine months ended 31st December 2006 (2005: Nil).

## **FINANCIAL AND BUSINESS REVIEW**

For the nine months ended 31st December 2006, the Group recorded a turnover of approximately HK\$9,720,000 (2005: approximately HK\$11,729,000). The decrease was mainly due to the decreased demand of playout, pre-mastering and post-production services from Pay TV channels.

Income from pre-mastering and other media services ("Media Services") accounted for approximately 66% (2005: approximately 65%) of the Group's turnover. There was no new Pay TV channel launched during this period. Thus, the demand for Media Services has decreased. Income from the provision of audiovisual playout services ("Playout Services") accounted for approximately 32% (2005: approximately 32%) of the Group's turnover. In August 2006, two channels were terminated which lead to the drop in Playout Services income.

Income from provision of TV digitalisation related services amounted to approximately HK\$128,000 (2005: approximately HK\$373,000). Such business has been launched since the fourth quarter of 2004 and still in its development stage.

The Group generated a gross profit of approximately HK\$1,273,000 (2005: approximately HK\$2,189,000) out of a total turnover of approximately HK\$9,720,000 (2005: approximately HK\$11,729,000). The gross profit margin was decreased from 19% in 2005 to 13% 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.

During the period under review, the loss attributable to shareholder was approximately HK\$12,298,000 (2005: approximately HK\$13,834,000). Such loss was mainly attributable to the provision of TV digitalisation related services whose business is still in its development stage and requires heavy investment, including machinery, network and manpower. However, the management believes 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 (including Hunan Province) will be digitalised. With such large hinterland, immense population, encouraging government policy, the management is optimistic and confident about the future of the digital television market in PRC.

Hunan TV, the authorised digital television network operator in Hunan Province, owns and operates a fibre optic trunk network covering 14 major districts in Hunan (the "First Tier Network"). The First Tier Network is connected to fibre optic trunk networks in 108 cities and counties in Hunan (the "Second Tier Network"). The First Tier Network and the Second Tier Network together form a province-wide cable television network in Hunan, covering over 4 million households in the territory which is the source of income by virtue of sharing of the subscription fee from these households with Hunan TV after deducting a fee to Second Tier Network Operators. In order to provide digital television services to subscribers, the Second Tier Network Operators must enter into agreement with Hunan TV on the sharing of subscription fee. As required by the circular dated 4 November 2004, the number of Second Tier Network Operators who has not yet reached agreement with Hunan TV is 50 as at the date of this report.

The pricing of the set-top boxes was approved by the relevant authority. The Group has placed orders to meet the requirement of set-top boxes and the completion of the digitalization system is now pending for installation of certain converter. In order to enlarge the audience base and increase popularity, we are exploring opportunities to enrich the content of programs for the channels. On the other hand, we are waiting for the process of the network restructure throughout the province by the relevant authority. Management expects that after the process of the network restructuring, the number of the subscribers will then increase progressively.

Due to the 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. 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 management believed that it is a good opportunity to capitalise on its expertise and experience in audiovisual technology, and to pursue the concept of providing media service as a whole. In 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.

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

**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 2006, the interests and short positions of the directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Future Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company were as follows:

**(a) Ordinary shares of HK\$0.01 each in the Company**

<b>Name of directors</b>	<b>Personal interests</b>	<b>Corporate interests</b>	<b>Other interests</b>
Mr. Tong Hing Chi	7,812,500	—	—
Mr. Law Kwok Leung	7,812,500	80,000,000 <i>(Note (a))</i>	—
Mr. Chan Kwok Sun, Dennis	—	—	80,000,000 <i>(Note (a))</i>
Mr. Feng Xiao Ping	—	31,718,750 <i>(Note (b))</i>	—

*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 2006, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital.

<b>Name of shareholders</b>	<b>Number of shares</b>	<b>Percentage of share capital (%)</b>
SRH	80,000,000	25.6
Sino Unicorn	31,718,750	10.15
Random Services Limited ("Random Services") <i>(Note (a))</i>	31,718,750	10.15
Yang Fuguang <i>(Note (a))</i>	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 2006.

## **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 2006. 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 2006.

## **CORPORATE GOVERNANCE PRACTICES**

The Company applied the principles and complied with all the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the period under review, with the exception of the deviation in respect of the appointment term of non-executive directors.

Under code provision A4.1, non-executive directors should be appointed for specific term. There is no specific term of appointment of the non-executive directors of the Company, however, they are subject to retirement by rotation in accordance with Bye-law of the Company. Accordingly the Company considers that sufficient measures have been taken to dealt with the requirement in respect of the appointment terms of non-executive directors as required under the code provision.

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

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

## **COMPETING BUSINESS**

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

## **AUDIT COMMITTEE**

The Company has established an audit committee comprising three independent non-executive directors and has adopted the terms of reference governing the authority and duties of the audit committee. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control of the Group. This report has been reviewed by the audit committee.

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

Hong Kong, 12th February 2007

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