

CHINA CHIEF CABLE TV GROUP LIMITED

(Incorporated in Bermuda with limited liability)

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

(Stock code: 8153)



FIRST QUARTERLY REPORT

2008

Three months ended

30th June 2008

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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.

QUARTERLY 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 ended 30 June 2008, together with the comparative figures for the corresponding periods in 2007 as follows:

		For the three months ended 30 June	
	Note	2008 HK\$'000	2007 HK\$'000
Turnover	2	3,292	2,787
Cost of sales		<u>(4,800)</u>	<u>(3,406)</u>
Gross losses		(1,508)	(619)
Other revenue	2	111	19
General, administrative and other expenses		<u>(8,420)</u>	<u>(3,489)</u>
Losses from operations		(9,817)	(4,089)
Finance costs		(176)	(923)
Share of loss of an associated company		<u>(2,761)</u>	<u>—</u>
Losses for the period		<u>(12,754)</u>	<u>(5,012)</u>
Attributable to:			
Equity holders of the Company		(12,053)	(5,012)
Minority interests		<u>(701)</u>	<u>—</u>
		<u>(12,754)</u>	<u>(5,012)</u>
Basic loss per share	4	<u>(2.21 HK cents)</u>	<u>(1.60 HK cents)</u>

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 30 June 2008

	Attributable to equity holders of the Company							Total HK\$'000
	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	Minority interest HK\$'000	
At 1 April 2007	3,125	27,783	(58,381)	(197)	6,000	152	—	(21,518)
Exercise of share option, including share premium	100	7,780	—	—	—	—	—	7,880
Loss for the period	—	—	(5,012)	—	—	—	—	(5,012)
At 30 June 2007	<u>3,225</u>	<u>35,563</u>	<u>(63,393)</u>	<u>(197)</u>	<u>6,000</u>	<u>152</u>	<u>—</u>	<u>(18,650)</u>
At 1 April 2008	4,380	185,229	(84,068)	(197)	6,000	676	—	112,020
Issue of shares, net of expenses	1,560	48,360	—	—	—	—	—	49,920
Acquisition of a subsidiary	—	—	—	—	—	—	1,949	1,949
Exchange differences	—	—	—	—	—	269	(8)	261
Loss for the period	—	—	(12,053)	—	—	—	(701)	(12,754)
At 30 June 2008	<u>5,940</u>	<u>233,589</u>	<u>(96,121)</u>	<u>(197)</u>	<u>6,000</u>	<u>945</u>	<u>1,240</u>	<u>151,396</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. Basis of preparation

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

The accounting policies and methods of computation adopted in the preparation of these unaudited consolidated accounts are consistent with those set out in the annual financial statements for the year ended 31 March 2008. The consolidated results are unaudited but have been reviewed by the Company’s audit committee.

2. Turnover and other revenue

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 services, 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 30 June	
	2008 HK\$'000	2007 HK\$'000
Turnover		
Provision of pre-mastering and other media services	2,363	1,956
Provision of audiovisual playout services	793	793
Provision of TV digitalisation related services	136	38
	<u>3,292</u>	<u>2,787</u>
Other revenue		
Interest income	111	17
Others	—	2
	<u>111</u>	<u>19</u>
Total revenue	<u>3,403</u>	<u>2,806</u>

3. Taxation

No provision for Hong Kong profits tax and PRC enterprise income tax has been made as the Group had no estimated assessable profit during the three months ended 30 June 2008 (2007: Nil).

4. Loss per share

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	For the three months ended 30 June	
	2008	2007
Loss attributable to equity holders of the Company (HK\$'000)	(12,053)	(5,012)
Weighted average number of ordinary shares in issue ('000)	546,000	313,599
Basic loss per share (Hong Kong cents)	<u>(2.21)</u>	<u>(1.60)</u>

No diluted loss per share for 2008 and 2007 has been presented, as the exercise of the outstanding share options and convertible bonds of the Company during the three months ended 30 June 2008 and 2007 would result in reducing loss per share.

5. Convertible bonds

On 28 April 2008, the Company issued convertible bonds with an aggregate amount of HK\$282,880,000 ("Convertible Bonds"). Each bondholder has the option to convert the Convertible Bonds into ordinary shares of the Company of HK\$0.01 each at a conversion price of HK\$0.32. Unless previously converted or purchased or redeemed, each Convertible Bond shall be redeemed by the Company at 115 per cent of its principal amount on 28 April 2013 (the maturity date of the Convertible Bonds).

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the three months ended 30 June 2008 (2007: Nil).

FINANCIAL AND BUSINESS REVIEW

For the three months ended 30 June 2008, the Group recorded a turnover of approximately HK\$3,292,000 (2007: approximately HK\$2,787,000). The increase was mainly due to the increase in the income from pre-mastering and other media services ("Media Services").

Income from Media Services accounted for approximately 72% (2007: approximately 70%) of the Group's turnover. The demand for Media Services has slightly increased in this period. Income from the provision of audiovisual playout services ("Playout Services") accounted for approximately 24% (2007: approximately 28%) of the Group's turnover.

Income from provision of TV digitalisation related services, amounted to approximately HK\$136,000 (2007: approximately HK\$38,000). Such business has been launched since the fourth quarter of 2004 and the income will be further improved as a result of the process of launching digital television network across the PRC by the PRC government.

The Group generated a gross loss of approximately HK\$1,508,000 (2007: approximately HK\$619,000) out of a total turnover of approximately HK\$3,292,000 (2007: approximately HK\$2,787,000). The gross loss arised 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 were incurred remain substantially the same as well as certain cost of sales for Media Service increased during the period.

During the period under review, the loss attributable to equity holders of the company was approximately HK\$12,053,000 (2007: approximately HK\$5,012,000). Such loss was mainly attributable to the share of loss of an associated company and rental expenses incurred to lease high definition equipments and new offices in Hong Kong and Shanghai.

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 grabbed 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 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 in the near future. 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 and will continue to explore new business opportunities for this segment.

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 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 Singapore. 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 April 2008, the Group completed the acquisition of 80% equity interest in Nanjing Everyday Buy Trading Co. Ltd. (“NJ Everyday Buy”). In view of the market potentials in direct TV sales, television advertising and programme production in the increasingly affluent PRC market, the Group has an opportunity to leverage on its expertise and network in the PRC television market and to form a strategic alliance with its joint venture partner to tap into the growth potential of the television advertising and direct in sales market in the PRC.

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

At 30 June 2008, the interests and short positions of the directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Future Ordinance (“SFO”)), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company were as follows:

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

Name of directors	Personal interests	Corporate interests	Other interests
Mr. TONG Hing Chi	7,812,500	—	—
Mr. LAW Kwok Leung	7,380,500	80,000,000 <i>(note (a))</i>	—
Mr. FENG Xiao Ping	—	41,718,750 <i>(note (b))</i>	—
Mr. CHAN Kwok Sun, Dennis	—	—	80,000,000 <i>(note (a))</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 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. In addition, 10,000,000 shares are held by Sky Dragon Digital Television and Movies Holdings Limited (“Sky Dragon Holdings”), a company 99% indirectly owned by Mr. FENG Xiao Ping.

(b) Share option

In January 2005, the Group has granted an option (“Option”) to Sky Dragon Holdings to subscribe for 30 million shares of the Company at an exercise price of HK\$0.788 per share. In June 2007, Sky Dragon Holdings exercised share option to subscribe 10 million shares of the Company and as at 30 June 2008, Sky Dragon Holdings still held options to subscribe 20 million shares.

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

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

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 30 June 2008, 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 — long position	Percentage of share capital (%)	Derivative interest	
			Number of shares — long position	Percentage of share capital (%)
Mr. Law Kwok Keung — corporate interest	104,520,000 (note (a) and note (d))	17.60	592,280,000 (note (b) and note (f))	40.07
Cityway Holdings Limited	—	—	592,280,000 (note (b) and note (f))	40.07
Keenway Holdings Limited	104,520,000 (note (a) and note (d))	17.60	—	—
Mr. Lin Fang Chih — corporate interest	51,480,000 (note (a) and note (e))	8.67	291,720,000 (note (b) and note (g))	19.74
Tradecity Investments Limited	—	—	291,720,000 (note (b) and note (g))	19.74
World Day Investments Limited	51,480,000 (note (a) and note (e))	8.67	—	—
SRH	80,000,000	13.47	—	—
Sino Unicorn	31,718,750 (note (c))	5.34	—	—
Random Services Limited ("Random Services")	31,718,750 (note (c))	5.34	—	—
Mr. Yang Fuguang — corporate interest	31,718,750 (note (c))	5.34	—	—

Note:

- Such interests represent the 156,000,000 new shares at HK\$0.32 per share issued on 28 April 2008 as partial consideration of the acquisition of the 80% equity interest in NJ Everyday Buy pursuant to the conditional sale and purchase agreement ("Agreement") entered into by the Company on 17 September 2007.
- Such interests represent the convertible bonds ("Convertible Bonds") in the principal amount of HK\$282,880,000 issued on 28 April 2008 as partial consideration of the acquisition of the 80% equity interest in NJ Everyday Buy pursuant to the Agreement. The percentage of shares in issue is based on the enlarged issued share capital of the Company after the issuance of the conversion shares.
- Sino Unicorn is 51% and 49% owned by Random Services and Mr. Yang Fuguang respectively. The shares referred to herein relate to the same parcel of shares held by Sino Unicorn.
- The interests refer to the same parcel of shares.
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Save as disclosed above and "Directors' and Chief Executives' interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation", the Company had no notice of any interests and short positions to be recorded under Section 336 of the SFO as at 30 June 2008.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its listed securities during the three months ended 30 June 2008. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the three months ended 30 June 2008.

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. Chang Carl and Mr. Lee Chi Hwa, Joshua. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control of the Group. The audit committee has reviewed the quarterly result.

SUBSEQUENT EVENT

On 2 July 2008, the Group entered into a framework agreement (“Framework Agreement”) with Mr. Lee Yuk Lun (“Vendor”) and Hong Kong New Success International Group Investment Company Limited (“Target Company”, together with its subsidiaries, “Target Group”) in relation to the proposed acquisition (“Proposed Acquisition”) of the entire issued and paid up capital of the Target Company, which holds 72% of the paid up capital of a company incorporated in the PRC (“PRC Company”). The PRC Company is principally engaged in the plantation and sale of cordyceps related products in the PRC.

On 7 July 2008, the Group paid an earnest money (“Earnest Money”) of HK\$20 million in full by cash to the Vendor upon satisfactory completion of the preliminary due diligence review on the Target Group. The Earnest Money exceeds 8% of the assets ratio of the Company as defined under Rule 19.07(1) of the GEM Listing Rules, the Company has made the respective disclosures under Rules 17.15 and 17.17 of the GEM Listing Rules on 14 July 2008.

The Framework Agreement does not constitute legally binding commitment between the Group and the Vendor as to the Proposed Acquisition but is legally binding as to other obligations under the Framework Agreement.

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 Mr. Wong Man Hung, Patrick, 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. Lee Chi Hwa, Joshua.

Hong Kong, 12 August 2008