

CHINA CHIEF CABLE TV GROUP LIMITED

(Incorporated in Bermuda with limited liability)

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

(Stock code: 8153)



THIRD QUARTERLY REPORT 2008

Three months and Nine months ended
31st December 2008

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 2008, together with the comparative unaudited figures for the corresponding periods in 2007 as follows:

UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three months and nine months ended 31st December 2008

	Notes	Three months ended 31st December		Nine months ended 31st December	
		2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Turnover	2	3,782	2,672	11,764	8,656
Cost of sales		(5,014)	(3,495)	(15,211)	(9,408)
Gross losses		(1,232)	(823)	(3,447)	(752)
Other revenue	2	281	2,052	453	2,401
General, administrative and other expenses		(10,469)	(6,200)	(28,010)	(13,377)
Losses from operations		(11,420)	(4,971)	(31,004)	(11,728)
Finance costs		(210)	(1,467)	(563)	(2,422)
Share of loss of an associated company		(1,690)	—	(7,889)	—
Loss for the period		(13,320)	(6,438)	(39,456)	(14,150)
Basic loss per share	4	(1.39 cents)	(1.48 cents)	(5.46 cents)	(3.77 cents)
Attributable to:					
Equity holders of the Company		(12,488)	(6,438)	(37,158)	(14,150)
Minority interests		(832)	—	(2,298)	—
		(13,320)	(6,438)	(39,456)	(14,150)

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 31st December 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	Convertible bonds-equity component HK\$'000	Minority interests HK\$'000	
At 1st April 2007	3,125	27,783	(58,381)	(197)	6,000	152	—	—	(21,518)
Issue of shares, net of expenses	1,255	157,446	—	—	—	—	—	—	158,701
Exchange differences	—	—	—	—	—	(433)	—	—	(433)
Loss for the period	—	—	(14,150)	—	—	—	—	—	(14,150)
At 31st December 2007	4,380	185,229	(72,531)	(197)	6,000	(281)	—	—	122,600
At 1st April 2008	4,380	185,229	(84,068)	(197)	6,000	676	—	—	112,020
Issue of shares from share subscriptions, net of expenses (note (a))	2,656	97,038	—	—	—	—	—	—	99,694
Issue of convertible bonds	—	—	—	—	—	—	31,002	—	31,002
Conversion of convertible bonds (note (b))	4,014	139,337	—	—	—	—	(10,231)	—	133,120
Acquisition of subsidiaries	—	—	—	—	—	—	—	26,122	26,122
Exchange differences	—	—	—	—	—	650	—	—	650
Loss for the period	—	—	(37,158)	—	—	—	—	(2,298)	(39,456)
At 31st December 2008	11,050	421,604	(121,226)	(197)	6,000	1,326	20,771	23,824	363,152

Notes:

(a) Pursuant to the Company's circular dated 22nd October 2007 (“October 2007 circular”), 156,000,000 ordinary shares of HK\$0.01 each of the Company were issued at a price of HK\$0.32 per share as part of the consideration for the Acquisition of Nanjing Everyday Buy Trading Co., Limited (“NJ Everyday Buy”) upon completion on 28th April 2008.

Pursuant to the Company's circular dated 29th September 2008 (“September 2008 circular”), 109,649,122 ordinary shares of HK\$0.01 each of the Company were issued at a price of HK\$0.456 per share as part of the consideration for the Acquisition of Hong Kong New Success International Group Investment Company Limited (“New Success Group”) upon completion on 27th November 2008.

(b) On 3rd October 2008 and 22nd December 2008, the Company received notices of exercise of conversion rights to convert the Convertible Bonds as defined in the October 2007 circular in partial amount of HK\$77,350,400 and HK\$16,000,000 respectively into new shares of the Company at a conversion price of HK\$0.32 per share, pursuant to that 241,720,000 and 50,000,000 new shares of the Company respectively were issued and allotted.

On 8th December 2008, the Company received a notice of exercise of conversion rights to convert the Convertible Bonds as defined in the September 2008 circular in whole amount of HK\$50,000,000 into new shares of the Company at a conversion price of HK\$0.456 per share, pursuant to that 109,649,122 new shares of the Company were issued and allotted.

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, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

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 2008. The consolidated results are unaudited but have been reviewed by the Company’s audit committee.

2. Revenues

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 (collectively known as “TV digitalisation related services”) and direct TV sales in the People’s Republic of China (“PRC”).

	Three months ended 31st December		Nine months ended 31st December	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Turnover				
Provision of pre-mastering and other media services	2,199	1,841	8,439	6,173
Provision of audiovisual playout services	793	793	2,378	2,378
Provision of TV digitalisation related services	360	38	517	105
Provision of direct TV sales services	430	—	430	—
	<u>3,782</u>	<u>2,672</u>	<u>11,764</u>	<u>8,656</u>
Other revenue				
Interest income	14	2,024	181	2,393
Others	267	28	272	8
	<u>4,063</u>	<u>4,724</u>	<u>12,217</u>	<u>11,057</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 2008 (2007: Nil).

4. Loss per share

(a) Basic

The calculation of basic loss per share for the three months and nine months ended 31st December 2008 was based on the Group’s loss attributable to shareholders of approximately HK\$12,488,000 and HK\$37,158,000 respectively (2007: approximately HK\$6,438,000 and HK\$14,150,000 respectively) and on 900,664,000 and 680,709,000 (2007: 435,696,000 and 375,605,000) weighted average number of ordinary shares in issue during the period.

(b) Diluted

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 and nine months ended 31st December 2008 and 2007 would result in reducing loss per share.

5. Subsequent event

As set out in the Company’s announcement dated 20th January 2009 in respect of a top-up placing, 50,000,000 ordinary shares of HK\$0.01 each of the Company were issued at a price of HK\$0.125 per share.

On 22nd January 2009, the Company received notices of exercise of conversion rights to convert the Convertible Bonds as defined in the October 2007 circular in partial amount of HK\$64,529,600 into new shares of the Company of a conversion price of HK\$0.32 per share, pursuant to that 201,655,000 new shares of the Company were issued and allotted.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months and nine months ended 31st December 2008 (2007: Nil).

FINANCIAL AND BUSINESS REVIEW

For the nine months ended 31st December 2008, the Group recorded a turnover of approximately HK\$11,764,000 (2007: approximately HK\$8,656,000).

Income from pre-mastering and other media services (“Media Services”) accounted for approximately 72% (2007: approximately 71%) of the Group’s turnover. Income from the provision of audiovisual playout services (“Playout Services”) accounted for approximately 20% (2007: approximately 27%) of the Group’s turnover. Income from provision of TV digitalisation related services, accounted for approximately 4% (2007: approximately 2%) of the total turnover, whilst income from direct TV sales accounted for 4% (2007: Nil).

During the period under review, the loss attributable to equity holders was approximately HK\$37,158,000 (2007: approximately HK\$14,150,000). The loss is mainly due to incorporation of the results of its newly acquired subsidiaries which were still in initial stage of development.

BUSINESS PURSUITS AND PROSPECTS

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 has been running smoothly since then. This encouraging start has further strengthened 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. 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 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 TV sales market in the PRC.

In view of the rapid economic growth in the PRC economy in the recent decade, the PRC consumption market exhibited a solid growth potential. As to diversify its existing business portfolio and to broaden its source of income, the Group completed the acquisition of 100% equity interest in New Success Group in November 2008. The Directors believe that the acquired cordyceps-related business can provide a new source of income to the Group. In particular, in view of the escalating demand, and hence prices, for high-end consumer products, the Directors are optimistic about the future prospect of the demand for cordyceps-related businesses 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

As at 31st December 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. Feng Xiao Ping	—	41,718,750 (Note (a))	—

Notes:

- (a) 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 31st December 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 31st December 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))	9.46	592,280,000 (note (b) and note (c))	34.90
Cityway Holdings Limited	—	—	592,280,000 (note (b) and note (c))	34.90
Keenway Holdings Limited	104,520,000 (note (a) and note (d))	9.46	—	—
Mr. Lee Yuk Lun	219,298,244 (note (e))	19.85	—	—

Note:

- (a) Such interests represent the 156,000,000 new shares at HK\$0.32 per share issued on 28th 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 17th September 2007.
- (b) Such interests represent the convertible bonds in the principal amount of HK\$282,880,000 issued on 28th April 2008 as partial consideration of the acquisition of the 80% equity interest in NJ Everyday Buy pursuant to the S&P Agreement. The percentage of shares in issue is based on the enlarged issued share capital of the Company after the issuance of those conversion shares. In January 2009, Cityway Holdings Limited transferred convertible bonds with principal amount of HK\$64,529,600 to Chung Nam Securities Limited. The ultimate beneficial owners of such convertible bonds are five independent individuals.
- (c) The interests refer to the same parcel of shares.
- (d) The interests refer to the same parcel of shares.
- (e) Such interests represent the 109,649,122 consideration shares at HK\$0.456 per share issue on 27th November 2008 and 109,649,122 conversion shares at HK\$0.456 per share converted on 8th December 2008 pursuant to September 2008 circular.

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 2008.

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 2008. 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 2008.

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 deal 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
Wong Man Hung Patrick
Chairman

Hong Kong, 13th February 2009

As of the date of this report, the executive directors of the Company are Mr. Wong Man Hung Patrick, Mr. Law Kwok Leung, Mr. Feng Xiao Ping and Mr. Stephen William Frostick, the independent non-executive directors are Mr. Sousa Richard Alvaro, Mr. Chang Carl and Mr. Lee Chi Hwa Joshua.