

# **CHINA CHIEF CABLE TV GROUP LIMITED**

(Incorporated in Bermuda with limited liability)

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

**(Stock code: 8153)**



## **THIRD QUARTERLY REPORT**

**2009**

Three months and Nine months ended  
31st December 2009

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on The Stock Exchange of Hong Kong Limited. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of The Stock Exchange of Hong Kong Limited and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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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 2009, together with the comparative unaudited figures for the corresponding periods in 2008 as follows:

#### UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three months and nine months ended 31st December 2009

	Notes	Three months ended 31st December		Nine months ended 31st December	
		2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Turnover	2	5,164	3,782	19,639	11,764
Cost of sales		(5,302)	(5,014)	(16,594)	(15,211)
Gross profit/(losses)		(138)	(1,232)	3,045	(3,447)
Other revenue	2	104	281	336	453
General, administrative and other expenses		(7,209)	(10,469)	(36,480)	(28,010)
Losses from operations		(7,243)	(11,420)	(33,099)	(31,004)
Finance costs		(179)	(210)	(848)	(563)
Share of loss of an associated company		—	(1,690)	—	(7,889)
Loss for the period		(7,422)	(13,320)	(33,947)	(39,456)
Attributable to:					
Equity holders of the Company		(7,387)	(12,488)	(32,875)	(37,158)
Minority interests		(35)	(832)	(1,072)	(2,298)
		(7,422)	(13,320)	(33,947)	(39,456)
Basic loss per share	4	(0.40 cents)	(1.39 cents)	(1.80 cents)	(5.46 cents)

#### UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 31st December 2009

	Attributable to equity holders of the Company							Subtotal HK\$'000	Minority interests HK\$'000	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			
At 1st April 2008	4,380	185,229	(84,068)	(197)	6,000	676	—	112,020	—	112,020
Issue of shares from share subscriptions, net of expenses	2,656	97,038	—	—	—	—	—	99,694	—	99,694
Issue of convertible bonds	—	—	—	—	—	—	31,002	31,002	—	31,002
Conversion of convertible bonds	4,014	139,337	—	—	—	—	(10,231)	133,120	—	133,120
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	26,122	26,122
Exchange differences	—	—	—	—	—	650	—	650	—	650
Loss for the period	—	—	(37,158)	—	—	—	—	(37,158)	(2,298)	(39,456)
At 31st December 2008	11,050	421,604	(121,226)	(197)	6,000	1,326	20,771	339,328	23,824	363,152
At 1st April 2009	17,593	612,184	(367,489)	(197)	7,382	(290)	—	269,183	26,352	295,535
Issue of shares, net of expenses	1,116	27,123	—	—	—	—	—	28,239	—	28,239
Issue of share option	—	—	—	—	14,500	—	—	14,500	—	14,500
Lapse of share option	—	—	—	—	(6,000)	—	—	(6,000)	—	(6,000)
Exchange differences	—	—	—	—	—	99	—	99	—	99
Loss for the period	—	—	(32,875)	—	—	—	—	(32,875)	(1,072)	(33,947)
At 31st December 2009	18,709	639,307	(400,364)	(197)	15,882	(191)	—	273,146	25,280	298,426

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 2009. 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	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Turnover				
Provision of pre-mastering and other media services	2,874	2,199	10,220	8,439
Provision of audiovisual playout services	1,165	793	3,720	2,378
Provision of TV digitalisation related services	203	360	568	517
Direct TV sales services	—	430	562	430
Sale of cordyceps — related product	922	—	4,569	—
	<u>5,164</u>	<u>3,782</u>	<u>19,639</u>	<u>11,764</u>
Other revenue				
Interest income	1	14	2	181
Others	103	267	334	272
	<u>104</u>	<u>281</u>	<u>336</u>	<u>453</u>
Total revenue	<u>5,268</u>	<u>4,063</u>	<u>19,975</u>	<u>12,217</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 2009 (2008: Nil).

**4. Loss per share**

**(a) Basic**

The calculation of basic loss per share for the three months and nine months ended 31st December 2009 was based on the Group’s loss attributable to shareholders of approximately HK\$7,387,000 and HK\$32,875,000 respectively (2008: approximately HK\$12,488,000 and HK\$37,158,000 respectively) and on 1,850,522,000 and 1,826,125,000 (2008: 900,664,000 and 680,709,000) weighted average number of ordinary shares in issue during the period.

**(b) Diluted**

No diluted loss per share for 2009 and 2008 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 2009 and 2008 would result in reducing loss per share.

**5. Subsequent event**

As set out in the Company’s announcement and circular dated 8th December 2009 and 28th December 2009 respectively, on 30th November 2009 the Group entered into an agreement to acquire 100% interest in Kang Yuan Universal Investment Limited and its subsidiary, Jiangsu Kedi Modern Agriculture Company Limited at a consideration of HK\$1,398 million. The transaction was approved by the shareholders of the Company on a special general meeting dated 15th January 2010 and was completed on 1st February 2010.

On 27th January 2010, the Company entered into a placing agreement with a placing agent and a subscription agreement with Mr. Au Yeung Kai Wah (“Mr. Au Yeung”) and Mr. Lee Yuk Lun (“Mr. Lee”) to place 290,000,000 and 10,000,000 respectively existing shares at a price of HK\$0.52 per placing shares for and on behalf of Mr. Au Yeung and Mr. Lee. Mr. Au Yeung and Mr. Lee agreed to subscribe for such number of new shares at a price of HK\$0.52 per subscription share. The placing and subscription were completed on 1st February 2010 and 5th February 2010 respectively.

## **INTERIM DIVIDEND**

The Board does not recommend the payment of an interim dividend for the three months and nine months ended 31st December 2009 (2008: Nil).

## **FINANCIAL AND BUSINESS REVIEW**

For the nine months ended 31 December 2009, the Group recorded a turnover of approximately HK\$19,639,000 (2008: approximately HK\$11,764,000). The increase was mainly due to the increase in the income from pre-mastering and other media services ("Media Services") and sale of cordyceps-related products.

Income from Media Services accounted for approximately 52% (2008: approximately 72%) of the Group's turnover. Income from the provision of audiovisual playout services ("Playout Services") accounted for approximately 19% (2008: approximately 20%) of the Group's turnover.

Income from provision of TV digitalisation related services, accounted for approximately 3% (2008: approximately 4%) of the total turnover.

Income from direct TV sales amounted to approximately HK\$562,000 (2008: Nil).

Income from sale of cordyceps-related products amounted to approximately HK\$4,569,000 (2008: Nil). The business was acquired in November 2008.

The Group generated a gross profit of approximately HK\$3,045,000 (2008: gross loss of approximately HK\$3,447,000) out of a total turnover of approximately HK\$19,639,000 (2008: approximately HK\$11,764,000) during the nine-month period. The gross margin has been improved from loss of 29% in 2008 to profit of 16% in the current period, mainly due to the incorporation of result of cordyceps-related business which has a high profit margin and level off the gross loss generated from Media Services.

During the period under review, the loss attributable to equity holders of the company was approximately HK\$32,875,000 (2008: approximately HK\$37,158,000).

## **BUSINESS PURSUITS AND PROSPECTS**

The Group has acquired a new business for the provision of TV digitalization related services in August 2004 in order to expand and grapped the opportunities of network digitalization business in the PRC. At present, the digital network signals is completely covered throughout the Hu Nan province and the TV digitalization related services continue to maintain a healthy growth rate and steady increase of audience base.

In August 2009, State Administration of Radio Film and Television ("SARFT"), which is an executive branch under the State Council of the People's Republic of China ("PRC") released a notice called "The Views on Accelerating the Development of the Radio and Television Cable Networks". The Group Management team ("The management") suggests that the release of the notice is a positive signal that the PRC government is dedicated to support the further development of broadcasting digital networks, and information technology. With such encouraging government policy, the management is optimistic and confident about the future of the digital television market in the PRC and will continue to explore new business opportunities for the segment.

In view of the market potential in direct TV sales, TV advertising and program production in the increasingly affluent PRC market, the management believes it is a good opportunity to capitalize on its expertise and experience in digitalization related services. In April 2008, the Group completed the acquisition of 80% equity interest in Nanjing Everyday Buy Trading Co., Ltd ("NJ Everyday Buy"). Hence, the Group leverages its digital network service in the direct TV sales and TV advertising market in the PRC.

However, The PRC was affected by the outbreak of the financial turmoil in the second half of 2008, which adversely impacted the general consumer spending sentiment. During the year, new foreign exchange and broadcasting regulations imposed by the PRC also crucially affected the operation of NJ Everyday Buy. Under the new foreign exchange regulation, foreign currency can not be remitted for domestic re-investment purposes. In other words, Hong Kong dollar being remitted into NJ everyday Buy could not be reinvested in the joint venture as an investment. In addition, a new broadcasting regulation has announced that TV sales program is considered as advertisement and is prohibited to be broadcasted on pay TV channels. NJ Everyday Buy owns a pay TV channel with program that is used for promoting consuming products. Given the new regulations, NJ Everyday Buy is conducting under an impairment investment. Due to these force majeure reasons, the Group will slow down the activities in TV sale business and intend to scale down the overall direct TV business of NJ Everyday Buy this year.

As to diversify its existing business portfolio and to broaden its source of income, the Group completed the acquisition of 100% equity interest in Hong Kong New Success International Group Investment Company Limited ("New Success") and its subsidiaries ("New Success Group") in November 2008. The management believes that the acquired cordyceps-related business can provide a new source of income to the Group. The cordyceps-related products have exceptional advantages in the prevention of cancer, anti-cancer, enhance immunity, and other aspects. Currently, New Success Group is in the process of improving the production line, in order to uplift the production capacity, New Success Group has built a new production line at Yongchun County in the PRC. The Group is in the process of commencing to distribute those products including considering opening retail stores in various main cities in the PRC.

The Group will continue to endeavour its best effort in keeping its established brand name and have umpteen confident in the enormous potential market in the PRC an positive approach towards the bright 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 2009, 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. On 21st June 2007, Sky Dragon Holdings exercised share option to subscribe 10 million shares of the Company. No Option has been subscribed since then and all remaining options were expired on 2nd August 2009.

On 1st April 2009, the Group has granted an Option II under Scheme II (as set out in the annual report of the Company for the year ended 31st March 2009) to Mr. Wong Man Hung Patrick to subscribe for 25 million shares of the Company at an exercise price of HK\$0.125 per share. As at 31st December 2009, Mr. Wong Man Hung Patrick has not subscribed any share under the Scheme II.

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 2009, 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 (%)
Law Kwok Keung (Note (a))	104,520,000	5.59
Keenway Holdings Limited (Note (a))	104,520,000	5.59
Lee Yuk Lun	219,298,244	11.72
Au Yeung Kai Wah	290,625,000	15.53

Notes:

- (a) The interests refer to the same parcel of shares.

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 2009.

## 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 2009. 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 2009.

## 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, 12th February 2010

*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. Lee Chi Hwa Joshua and Ms. Chan Mei Bo Mabel.*