

CHINA 33 MEDIA GROUP LIMITED 中國三三傳媒集團有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code : 8087



FIRST QUARTERLY REPORT 2011

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CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Three months ended 31 March 2011

FIRST QUARTERLY RESULTS

The unaudited condensed consolidated results of China 33 Media Group Limited (the “**Company**”) and its subsidiaries (collectively, the “**Group**”) for the three months ended 31 March 2011, together with the comparative unaudited figures for the corresponding period in 2010, are as follows:

		Unaudited three months ended 31 March	
	Notes	2011 RMB'000	2010 RMB'000
REVENUE	5	57,121	43,314
Cost of sales		(14,630)	(13,290)
Gross profit		42,491	30,024
Other income and gains, net		142	25
Selling and distribution expenses		(8,942)	(5,758)
Administrative expenses		(5,813)	(3,636)
Other operating expenses, net		(5)	(1)
Share of profits and losses of:			
A jointly-controlled entity		(165)	—
An associate		73	(11)
PROFIT BEFORE TAX		27,781	20,643
Income tax expense	6	(7,008)	(6,031)
PROFIT FOR THE PERIOD		20,773	14,612
Profit for the period attributable to:			
Owners of the Company		21,040	14,421
Non-controlling interests		(267)	191
		20,773	14,612
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	8		
Basic		RMB4.55 cents	RMB3.20 cents
Diluted		RMB4.55 cents	RMB3.20 cents
PROFIT FOR THE PERIOD		20,773	14,612
OTHER COMPREHENSIVE INCOME FOR THE PERIOD:			
Exchange differences on translation of foreign operations		712	101
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		21,485	14,713
Attributable to:			
Owners of the Company		21,752	14,522
Non-controlling interests		(267)	191
		21,485	14,713

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Three months ended 31 March 2011

	Attributable to owners of the Company								
	Issued capital RMB'000	Share premium account RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000	Exchange reserve RMB'000	Retained profits/ (accumulated loss) RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2010	–	–	25,557	1,616	271	(1,683)	25,761	2,771	28,532
Profit for the period	–	–	–	–	–	14,421	14,421	191	14,612
Other comprehensive income for the period:									
Exchange differences on translation of foreign operations	–	–	–	–	101	–	101	–	101
Total comprehensive income/(loss) for the period	–	–	–	–	101	14,421	14,522	191	14,713
Equity-settled share option transactions	–	–	29	–	–	–	29	–	29
At 31 March 2010	–	–	25,586	1,616	372	12,738	40,312	2,962	43,274
At 1 January 2011	2,967	9,469	26,153	10,030	926	60,572	110,117	2,972	113,089
Profit/(loss) for the period	–	–	–	–	–	21,040	21,040	(267)	20,773
Other comprehensive income for the period:									
Exchange differences on translation of foreign operations	–	–	–	–	712	–	712	–	712
Total comprehensive income/(loss) for the period	–	–	–	–	712	21,040	21,752	(267)	21,485
Issue of shares under public placing	989	225,803	–	–	–	–	226,792	–	226,792
Issue of shares on exercise of over-allotment options	20	4,652	–	–	–	–	4,672	–	4,672
Expenses incurred in connection with the issue of shares	–	(14,820)	–	–	–	–	(14,820)	–	(14,820)
Equity-settled share option transactions	–	–	22	–	–	–	22	–	22
At 31 March 2011	3,976	225,104	26,175	10,030	1,638	81,612	348,535	2,705	351,240

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 5 May 2010 under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

Pursuant to the reorganisation (the “Reorganisation”) to rationalise the structure of the Company and its subsidiaries in preparation for the listing of the Company’s shares on the GEM of the Stock Exchange, the Company became the holding company of the companies now comprising the Group on 17 December 2010. Further details of the Reorganisation are set out in the Company’s listing prospectus dated 22 February 2011. The shares of the Company were listed on the GEM of the Stock Exchange on 28 February 2011.

During the period, the Group was principally engaged in the operation and provision of advertising services of printed media and audio programmes for railway networks and advertising spaces on air traffic control towers at airports in Mainland China.

2. BASIS OF PRESENTATION AND PREPARATION

- (a) Since the Company and the companies now comprising the Group were under common control both before and after the completion of the Reorganisation, the Reorganisation was accounted for using merger method of accounting. The financial statements have been prepared on the basis as if the Company has always been the holding company of the companies now comprising the Group.

The condensed consolidated statements of comprehensive income and condensed consolidated statements of changes in equity of the Group for the three months ended 31 March 2011 include the results of all companies now comprising the Group, as if the current structure had been in existence throughout the three months ended 31 March 2011, or since their respective dates of acquisition, incorporation or establishment, where this is a shorter period.

In the opinion of the directors, the condensed consolidated financial statements prepared on the above basis present more fairly the results and state of affairs of the Group as a whole.

- (b) The condensed consolidated financial statements for the three months ended 31 March 2011 have been prepared in accordance with the applicable disclosure requirements set out in Chapter 18 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) and International Financial Reporting Standards (“IFRSs”), which comprise standards and interpretations approved by the International Accounting Standards Board (the “IASB”), and International Accounting Standards (“IASs”) and Standing Interpretations Committee Interpretations approved by the International Accounting Standards Committee, and the disclosure requirement of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. The condensed consolidated financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

The condensed consolidated financial statements are unaudited but have been reviewed by the audit committee (the “Audit Committee”) of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and method of computation used in the preparation of the unaudited condensed consolidated financial statements are consistent with those applied in the Group’s audited financial statements for the year ended 31 December 2010.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. ADOPTION OF NEW AND REVISED IFRSs

In the current period, the Group has adopted a number of new and revised IFRSs, amendments to IASs and Interpretations (hereinafter collectively referred to as “new and revised IFRSs”) issued by the IASB that are relevant to the Group and effective for accounting periods beginning on or after 1 January 2011. The adoption of these new and revised IFRSs did not result in substantial changes to the Group’s accounting policies and amounts reported for the current period and prior periods/years.

The Group has not early adopted the new and revised IFRSs that have been issued but are not yet effective. The directors anticipate that the application of the new and revised IFRSs will have no material impact on the results and financial position of the Group.

5. REVENUE AND OPERATING SEGMENT INFORMATION

Revenue, which is also the Group’s turnover, represents the advertising income, net of business tax.

The following table sets out a breakdown of revenue:

	Unaudited three months ended 31 March	
	2011 RMB’000	2010 RMB’000
Printed media advertising	43,510	34,945
Outdoor advertising	3,625	2,182
Audio advertising	9,986	6,187
	57,121	43,314

	Printed media advertising RMB’000	Outdoor advertising RMB’000	Audio advertising RMB’000	Total RMB’000
Three months ended 31 March 2011				
Segment revenue:				
Sales to external customers	43,510	3,625	9,986	57,121
Segment results				
	31,893	1,165	9,433	42,491
<i>Reconciliation:</i>				
Interest income				140
Other unallocated income and gains, net				2
Share of profits and losses of:				
a jointly-controlled entity				(165)
an associate				73
Corporate and other unallocated expenses				(14,760)
Profit before tax				27,781
Income tax expense				(7,008)
Profit for the period				20,773

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Printed media advertising RMB'000	Outdoor advertising RMB'000	Audio advertising RMB'000	Total RMB'000
Three months ended 31 March 2010				
Segment revenue:				
Sales to external customers	34,945	2,182	6,187	43,314
Segment results	24,214	400	5,410	30,024
<i>Reconciliation:</i>				
Interest income				22
Other unallocated income and gains, net				3
Share of loss of an associate				(11)
Corporate and other unallocated expenses				(9,395)
Profit before tax				20,643
Income tax expense				(6,031)
Profit for the period				14,612

6. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (three months ended 31 March 2010: Nil). Taxes on profits assessable in Mainland China have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof.

Pursuant to the PRC Corporate Income Tax Law, the PRC corporate income tax rate of all the PRC subsidiaries is 25%. The Group is not subject to any taxation under the jurisdiction of the Cayman Islands during the three months ended 31 March 2011 (three months ended 31 March 2010: Nil).

7. DIVIDENDS

The Directors did not recommend the payment of any interim dividend for the three months ended 31 March 2011 (three months ended 31 March 2010: Nil).

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the period attributable to owners of the Company of RMB21,040,000 (three months ended 31 March 2010: RMB14,421,000), and the weighted average number of 462,757,000 ordinary share in issue (three months ended 31 March 2010: 450,000,000). In determining the weighted average number of ordinary shares in issue, a total of 450,000,000 ordinary shares of the Company issued pursuant to the Reorganisation and a capitalisation issue were deemed to have been issued since 1 January 2010.

No adjustment has been made to the basic earnings per share presented for the periods ended 31 March 2011 and 2010 in respect of a dilution as the impact of the potential dilutive ordinary shares outstanding has an anti-dilutive effect on the basic earnings per share presented for the current period, and the Group had no potentially dilutive ordinary shares in issue during the prior period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9. SHARE CAPITAL

	Note	Number of ordinary shares	Nominal value of ordinary shares RMB'000
Authorised:			
Upon incorporation (50,000,000 shares of US\$0.001 each)	(a)	50,000,000	330
Increase in authorised share capital on 17 December 2010	(b)	39,950,000,000	263,342
		40,000,000,000	263,672
Issued:			
Upon incorporation (1 share of US\$0.001 allotted and issued at nil paid)	(c)	1	–
On acquisition of Hong Kong Ao Shen Investment Co., Ltd. ("Hong Kong Ao Shen") on 17 December 2010 – allotment and issuance of 48,999,999 shares credited as fully paid	(d)	48,999,999	323
– 1 nil paid share credited as fully paid	(d)	–	–
Capitalisation of an amount due to Lizhong Limited ("Lizhong") of RMB12,436,000	(e)	1,000,000	7
Capitalisation issue credited as fully paid on the share premium account of the Company	(f)	400,000,000	2,637
Issued capital as at 31 December 2010		450,000,000	2,967
Issuance of new shares on 25 February 2011	(g)	150,000,000	989
Issuance of new shares on 30 March 2011	(h)	3,090,000	20
At 31 March 2011		603,090,000	3,976

Notes:

- On 5 May 2010, the authorised share capital was US\$50,000 divided into 50,000,000 shares having a par value of US\$0.001 each.
- Pursuant to a resolution passed on 17 December 2010, the authorised share capital of the Company was increased from US\$50,000 to US\$40,000,000 by the creation of 39,950,000,000 additional new shares of US\$0.001 each.
- On 5 May 2010, one share was allotted and issued, at nil paid, to Codan Trust Company (Cayman) Limited, which was transferred to Lizhong on the same date.
- On 17 December 2010, the Company acquired from Lizhong an aggregate of 100 shares of HK\$1 each in the share capital of Hong Kong Ao Shen, being its entire issued share capital, in consideration of and in exchange for which the Company (i) allotted and issued, credited as fully paid, an aggregate of 48,999,999 shares to Lizhong and (ii) credited as fully paid at par the one nil paid share then held by Lizhong (note (c)).
- On 17 December 2010, the Company issued and allotted 1,000,000 shares to Lizhong, credited as fully paid, in full satisfaction of the amount of part of the shareholder's loan for the principal amount of approximately RMB12,436,000 owed by Hong Kong Ao Shen to Lizhong.
- Pursuant to a resolution passed on 17 December 2010, 400,000,000 shares were allotted and issued at a par value of US\$0.001 each in proportion to the holders of shares whose names appear on the register of members of the Company at the close of business on 17 December 2010.
- In connection with the Company's initial public offering, 150,000,000 shares of US\$0.001 each were issued at a price of HK\$1.80 per share for a total cash consideration, before expenses, of approximately HK\$270,000,000 on 25 February 2011. Dealings in these shares on the Stock Exchange commenced on 28 February 2011.
- On 30 March 2011, the Company issued and allotted 3,090,000 shares of US\$0.001 each to Lizhong pursuant to the partial exercise of the Over-allotment Option (as defined in the prospectus issued by the Company dated 22 February 2011) by Oriental Patron Securities Limited at the price of HK\$1.80 per share. For details, please refer to the announcement issued by the Company dated 30 March 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group's total revenue for the three months ended 31 March 2011 was RMB57,121,000, representing an increase of approximately 31.9% as compared to RMB43,314,000 for the three months ended 31 March 2010. Overall gross profit increased by RMB12,467,000 or approximately 41.5% to RMB42,491,000 for the three months ended 31 March 2011 from RMB30,024,000 for the corresponding period of last year. The gross profit margin for the current period reached approximately 74.4% as compared to approximately 69.3% in the same period of last year. The total comprehensive income for the period attributable to the owners of the Company amounted to RMB21,752,000, representing an increase of approximately 49.8% as compared to RMB14,522,000 of the corresponding period of last year.

Printed Media Advertising

Revenue from printed media advertising was the principal source of revenue for the period under review which contributed approximately 76.2% to the Group's total revenue for the period under review. It is expected to continue to be our principal source of revenue in the future. Revenue from printed media advertising increased by approximately 24.5% from RMB34,945,000 for the period ended 31 March 2010 to RMB43,510,000 for the period ended 31 March 2011. The growth is mainly attributable to the increase in both average price per advertisement page and total number of advertisement pages.

Gross profit for the three months ended 31 March 2011 amounted to RMB31,893,000, representing an increase of approximately 31.7% as compared with a gross profit of RMB24,214,000 for the three months ended 31 March 2010. Gross profit margin increased from approximately 69.3% for the three months ended 31 March 2010 to approximately 73.3% for the three months ended 31 March 2011 mainly due to the increase in average price per advertisement page, decrease in average printing cost per page as a result of bulk purchase and benefits resulting from economies of scale.

Audio Advertising

Revenue from audio advertising represented the amount generated from the sales of advertising timeslots which was being part of the audio advertising produced by the Group for broadcasting during train transmission. It is mainly driven by duration of the audio advertisements, the price per standard timeslot (i.e. 15 or 30 seconds) and the frequency of broadcast. Revenue from audio advertising increased by RMB3,799,000 or approximately 61.4% to RMB9,986,000 for the three months ended 31 March 2011 from RMB6,187,000 for the corresponding period in year 2010. The increase is mainly driven by the growth in demand for our audio advertising services in view of the national coverage of our audio programmes on all regular trains in the PRC in early 2010.

Gross profit amounted to RMB9,433,000 for the three months ended 31 March 2011, representing an increase of approximately 74.4% over that of the corresponding period in last year, which was RMB5,410,000. Gross profit margin reached approximately 94.5% for the three months ended 31 March 2011 as compared to approximately 87.4% in the corresponding period last year. As majority of the costs of audio programmes such as amortisation expenses on intangible assets and management fee are relatively fixed cost in nature, the gross profit margin generally moved in line with the increase in revenue from audio programmes.

Outdoor Advertising

Revenue from outdoor advertising is mainly driven by the number of air traffic control towers and the price per advertising space. It increased from RMB2,182,000 for the three months ended 31 March 2010 to RMB3,625,000 for the three months ended 31 March 2011. Gross profit increased to RMB1,165,000 from RMB400,000, representing an increase of approximately 191.2% as compared with the three months ended 31 March 2010. The increase was mainly due to the fact that the Group successfully secured a large outdoor advertising contract with an existing customer for 16 air traffic control towers in December 2010 with higher contract price. The gross profit margin increased to approximately 32.1% for the three months ended 31 March 2011 as compared to approximately 18.3% for the same period last year.

FUTURE PROSPECTS

In view of the rapid development of the high-speed railway network in China, the Group is optimistic on the long-term prospect of our existing businesses. The management of the Group is now optimizing the Group's resources in order to capture more business opportunities by focusing on the advertising business at train stations, advertising agency business in on-board LED media, expanding the Group's existing businesses by extending sales network and expanding advertising business through internet.

The Group has entered into contracts with certain state-owned railways media operators that the Group is granted an exclusive advertising right to install and operate the advertising panels at seven selected train stations operated by three railway bureaus. The Group will commence installation of billboards and facilities in several stations in coming months.

The Group will expand the existing businesses by extending sales network through the establishment of sales offices at different PRC cities and strengthen the Group's sales and advertising teams at different locations. The Group will also increase the number of route-specific supplements of our printed media in order to strengthen the customer base and accelerate our business growth. To further broaden our coverage and penetration of audio advertising in the market, the Group will continue to discuss with the various local railway bureaus for additional broadcasting time for advertisements on different routes of regular trains in China. To expand our outdoor advertising, the Group will secure more advertising spaces on the air traffic control towers at the civil airports that are not currently operated by the Group.

The Group has entered into a memorandum of understanding with 北京九華互聯科技有限公司 (Beijing Jiuhua Science and Technology Company Limited) ("Beijing Jiuhua"), which is an independent third party and owned by three individuals. Beijing Jiuhua is engaged in the business of digital contents and applications and has provided broadcasting control system software to relevant local railway bureaus. According to the memorandum of understanding which was effective from 13 September 2010, the Group intends to invest in Beijing Jiuhua by way of acquisition of a non-controlling interest held by the existing shareholders or such other methods as shall be agreed between the parties subject to satisfactory and complete due diligence by the Group. Should Beijing Jiuhua be able to secure the relevant LED panels business, the Group will negotiate for the relevant advertising agency business in these new on-board LED media.

The Group has entered into an agreement with 中鐵信息工程集團有限公司 (Sino Rail Information Engineering Group Company Limited) ("Sino Rail") in October 2010 for an initial term of 10 years and the Group was appointed as the sole operator of the website dedicated to the provision of railway related information and services including, railway information, such as development of railway construction, train timetables, train status, ticketing and news; information platform for railway related suppliers; railway information projects tendering; and highlights of all hyperlinks to sightseeing attractions, restaurants and hotels along the railway network in China.

CONTINGENT LIABILITIES

As at 31 March 2011, the Group did not have any significant contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

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

As at 31 March 2011, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meanings of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required notification to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such director or chief executive is taken or deemed to have under such provision of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register of members of the Company, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long Positions in the Ordinary Shares of the Company

Name of director	Nature of interest	Number of shares held	Approximate percentage of shareholding (%)
Mr. Lin Pintong (Note 1)	Interest of a controlled corporation	265,500,000 ordinary shares	44.02
Mr. Ruan Deqing (Note 2)	Interest of a controlled corporation	265,500,000 ordinary shares	44.02
Mr. Han Wenqian (Note 3)	Interest of a controlled corporation	9,000,000 ordinary shares	1.49
Mr. Wang Fuqing (Note 4)	Interest of a controlled corporation	28,638,000 ordinary shares	4.75

Notes:

- (1) These shares are registered in the name of Lizhong, 47.46% of the entire issued share capital of which is owned by Broad Win Limited ("Broad Win"). The entire issued share capital of Broad Win is owned by Mr. Lin Pintong ("Mr. Lin"), an executive director. Mr. Lin is deemed to be interested in all the shares in which Broad Win is interested by virtue of the SFO. Mr. Lin is the sole director of Broad Win.
- (2) These shares are registered in the name of Lizhong, 47.46% of the entire issued share capital of which is owned by Joint Loyal Limited ("Joint Loyal"). The entire issued share capital of Joint Loyal is owned by Mr. Ruan Deqing ("Mr. Ruan"), an executive director. Mr. Ruan is deemed to be interested in all the shares in which Joint Loyal is interested by virtue of the SFO. Mr. Ruan is the sole director of Joint Loyal.
- (3) These shares are registered in the name of Long Sunny Trading Limited ("Long Sunny"), the entire issued share capital of which is owned by Mr. Han Wenqian ("Mr. Han"), an executive director. Mr. Han is deemed to be interested in all the shares in which Long Sunny is interested by virtue of the SFO. Mr. Han is the sole director of Long Sunny.
- (4) These shares are registered in the name of Make Sense Group Limited ("Make Sense"), the entire issued share capital of which is owned by Mr. Wang Fuqing ("Mr. Wang"), a non-executive director. Mr. Wang is deemed to be interested in all the shares in which Make Sense is interested by virtue of the SFO. Mr. Wang is the sole director of Make Sense.

Save as disclosed above, as at 31 March 2011, none of the Directors and chief executive of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the directors to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITION IN SHARES AND UNDERLYING SHARES OF THE COMPANY

So far as is known to the Directors, as at 31 March 2011, the following persons (not being a Director or chief executive of the Company) had, or were deemed to have interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Long positions in shares and underlying shares of the Company

Name of shareholder	Nature of interest	Number of shares held	Approximate percentage of shareholding (%)
Lizhong (Note 1)	Beneficial owner	265,500,000	44.02
Broad Win (Note 1)	Interest of a controlled corporation	265,500,000	44.02
Ms. Pan Xiaoying (Note 2)	Interest of spouse	265,500,000	44.02
Joint Loyal (Note 1)	Interest of a controlled corporation	265,500,000	44.02
Ms. Liu Sibin (Note 3)	Interest of spouse	265,500,000	44.02
Mr. Kazunari Shirai (Note 4)	Interest of a controlled corporation	49,362,000	8.18
Ms. Junko Shirai (Note 5)	Interest of spouse	49,362,000	8.18
Smartisian Holdings Company Ltd. (Note 6)	Beneficial owner	36,000,000	5.97
Mr. Wang Shouzhong (Note 6)	Interest of a controlled corporation	36,000,000	5.97
Ms. Liu Jumei (Note 6)	Interest of spouse	36,000,000	5.97

Notes:

- (1) These shares are registered in the name of and beneficially owned by Lizhong, 47.46% and 47.46% of the entire issued share capital of Lizhong is owned by Broad Win and Joint Loyal respectively. The entire issued share capital of Broad Win and Joint Loyal is owned by Mr. Lin and Mr. Ruan respectively. Under the SFO, each of Mr. Lin, Mr. Ruan, Broad Win and Joint Loyal is deemed to be interested in all the shares held by Lizhong. The directors of Lizhong are Mr. Lin, Mr. Ruan and Mr. Han.
- (2) Ms. Pan Xiaoying ("Ms. Pan") is the spouse of Mr. Lin. Therefore, Ms. Pan is deemed, or taken to be, interested in the 265,500,000 shares which Mr. Lin is deemed, or taken to be interested in for the purposes of the SFO.
- (3) Ms. Liu Sibin ("Ms. Liu") is the spouse of Mr. Ruan. Therefore, Ms. Liu is deemed, or taken to be, interested in the 265,500,000 shares which Mr. Ruan is deemed, or taken to be interested in for the purposes of the SFO.
- (4) Among these shares, Sequedge Finance Inc. ("Sequedge Finance") is the beneficial owner of 29,185,701 shares and Sequedge ASA Capital (Cayman) II Limited ("Sequedge Capital") is the beneficial owner of 20,176,299 shares. Mr. Kazunari Shirai ("Mr. Kazunari") is deemed to be interested in all these Shares by virtue of his interest in 72.08% of the entire issued share capital of Sequedge Finance and 60% of the entire issued share capital of Sequedge Capital for the purposes of the SFO.
- (5) Ms. Junko Shirai ("Ms. Junko") is the spouse of Mr. Kazunari. Therefore, Ms. Junko is deemed, or taken to be, interested in all shares which Mr. Kazunari is deemed, or taken to be interested in for the purposes of the SFO.
- (6) These shares are registered in the name of and beneficially owned by Smartisian Holdings Company Ltd. ("Smartisian Holdings"), the entire issued share capital of which is owned by Mr. Wang Shouzhong. Mr. Wang Shouzhong is deemed to be interested in all the shares in which Smartisian Holdings is interested by virtue of the SFO. Ms. Liu Jumei is the spouse of Mr. Wang Shouzhong. Ms. Liu Jumei is deemed, or taken to be, interested in all shares which Mr. Wang Shouzhong is deemed, or taken to be interested in for the purposes of the SFO.

Save as disclosed above, as at 31 March 2011, the Directors are not aware of any other persons (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, or who is directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

COMPETING INTERESTS

For the three months ended 31 March 2011, the Directors were not aware of any business or interest of each of the Directors, or the controlling shareholders of the Company and their respective associates (as defined under GEM Listing Rules) that compete or may compete, directly or indirectly, with the business of the Company.

INTERESTS OF THE COMPLIANCE ADVISER

As notified by the Company's compliance adviser, Oriental Patron Asia Limited (the "Compliance Adviser"), save for an indirect holding of 2,000,000 shares of the Company by an associate (as defined under the GEM Listing Rules) of the Compliance Adviser, none of the Compliance Adviser, or its directors, employees or associates (as defined under the GEM Listing Rules) had any interest in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities) as at 31 March 2011.

Pursuant to an agreement dated 23 February 2011 entered into between the Company and the Compliance Adviser, the Compliance Adviser had received and will receive a fee for acting as the Company's compliance adviser for the period from 28 February 2011 (being the Listing Date) and ending on the date on which the Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the second full financial year commencing after the Listing Date, i.e., the financial year ending 31 December 2013 or until the agreement is terminated in accordance with the terms and conditions set out therein.

The stabilization period in connection with the Placing (such term as defined in the Prospectus) commenced from the Listing Date and ended on 30 March 2011 (the "Stabilization Period").

Oriental Patron Securities Limited (being an associate of the Compliance Adviser) acted as the stabilizing manager in connection with the Placing and had undertaken stabilizing actions in discharging its duties as the stabilizing manager during the Stabilization Period. For details, please refer to the announcement issued by the Company dated 30 March 2011.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the three months ended 31 March 2011, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the listed securities of the Company.

CORPORATE GOVERNANCE

The Company has complied with the code provisions as set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 15 to the GEM Listing Rules throughout the three months ended 31 March 2011.

AUDIT COMMITTEE

The Audit Committee was established with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules and paragraph C.3.3 of the Code. The primary duties of the Audit Committee are mainly to review the material investment, capital operation and material financial system of the Company; to review the accounting policy, financial position and financial reporting procedures of the Company; to communicate with external audit firms; to assess the performance of internal financial and audit personnel; and to assess the internal control of the Company. The Audit Committee has three members comprising Mr. Gao Xingbo (Chairman), Mr. Feng Bing and Mr. Chen Shaofeng.

The Audit Committee has reviewed the unaudited condensed consolidated financial statements and the results of the Group for the three months ended 31 March 2011.

By order of the Board
China 33 Media Group Limited
Lin Pintong
Chairman

Hong Kong, 29 April 2011

As at the date hereof, the Board comprises three executive Directors, namely Mr. Lin Pintong (Chairman), Mr. Ruan Deqing and Mr. Han Wenqian; two non-executive Directors, namely Mr. Wang Jianqing and Mr. Wang Fuqing; and four independent non-executive Directors, namely Mr. Gao Xingbo, Mr. Feng Bing, Mr. Chen Shaofeng and Ms. Xing Zhibin.