

CHINA CHIEF CABLE TV GROUP LIMITED

(Incorporated in Bermuda with limited liability)

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

(Stock code: 8153)



FIRST QUARTERLY REPORT

2009

Three months ended

30th June 2009

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

	Note	For the three months ended 30 June	
		2009 HK\$'000	2008 HK\$'000
Turnover	2	7,421	3,292
Cost of sales		<u>(6,785)</u>	<u>(4,800)</u>
Gross profit/(loss)		636	(1,508)
Other revenue	2	288	111
General, administrative and other expenses		<u>(9,887)</u>	<u>(8,420)</u>
Share-based payment	4	<u>(14,500)</u>	<u>—</u>
Losses from operations		<u>(23,463)</u>	<u>(9,817)</u>
Finance costs		<u>(416)</u>	<u>(176)</u>
Share of loss of an associated company		<u>—</u>	<u>(2,761)</u>
Losses for the period		<u><u>(23,879)</u></u>	<u><u>(12,754)</u></u>
Attributable to:			
Equity holders of the Company		<u>(23,114)</u>	<u>(12,053)</u>
Minority interests		<u>(765)</u>	<u>(701)</u>
		<u><u>(23,879)</u></u>	<u><u>(12,754)</u></u>
Basic loss per share	5	<u><u>(1.29 HK cents)</u></u>	<u><u>(2.21 HK cents)</u></u>

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 30 June 2009

	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 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>
At 1 April 2009	17,593	612,184	(367,489)	(197)	7,382	(290)	26,352	295,535
Issue of shares, net of expenses	750	21,035	—	—	—	—	—	21,785
Issue of share options	—	—	—	—	14,500	—	—	14,500
Exchange differences	—	—	—	—	—	(42)	(4)	(46)
Loss for the period	—	—	(23,114)	—	—	—	(765)	(23,879)
At 30 June 2009	<u>18,343</u>	<u>633,219</u>	<u>(390,603)</u>	<u>(197)</u>	<u>21,882</u>	<u>(332)</u>	<u>25,583</u>	<u>307,895</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 2009. 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 (collectively known as “TV digitalisation related services”), direct television sales and cordyceps-related business in the People’s Republic of China (“PRC”).

	For the three months ended 30 June	
	2009 HK\$'000	2008 HK\$'000
Turnover		
Provision of pre-mastering and other media services	3,321	2,363
Provision of audiovisual playout services	1,399	793
Provision of TV digitalisation related services	364	136
Direct television sales	551	—
Sale of cordyceps-related products	1,786	—
	<u>7,421</u>	<u>3,292</u>
Other revenue		
Interest income	2	111
Others	286	—
	<u>288</u>	<u>111</u>
Total revenue	<u>7,709</u>	<u>3,403</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 2009 (2008: Nil).

4. Share-based payment

On 1 April 2009, the Company granted 100,000,000 options to certain participants at an exercise price of HK\$0.125 per share. The fair value of the options granted of HK\$14,500,000 (measured using Black-Scholes-Merton Option Pricing Model) was recognised in the consolidated income statement for the period.

5. 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	
	2009	2008
Loss attributable to equity holders of the Company (HK\$'000)	(23,114)	(12,053)
Weighted average number of ordinary shares in issue ('000)	1,791,166	546,000
Basic loss per share (Hong Kong cents)	<u>(1.29)</u>	<u>(2.21)</u>

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 ended 30 June 2009 and 2008 would result in reducing loss per share.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the three months ended 30 June 2009 (2008: Nil).

FINANCIAL AND BUSINESS REVIEW

For the three months ended 30 June 2009, the Group recorded a turnover of approximately HK\$7,421,000 (2008: approximately HK\$3,292,000). 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 45% (2008: approximately 72%) of the Group's turnover. Income from the provision of audiovisual playout services ("Playout Services") accounted for approximately 19% (2008: approximately 24%) of the Group's turnover.

Income from provision of TV digitalisation related services, amounted to approximately HK\$364,000 (2008: approximately HK\$136,000). 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.

Income from direct TV sales amounted to approximately HK\$551,000 (2008: Nil). The business was acquired in April 2008.

Income from sale of cordyceps-related products amounted to approximately HK\$1,786,000 (2008: Nil). The business was acquired in November 2008.

The Group generated a gross profit of approximately HK\$636,000 (2008: gross loss of approximately HK\$1,508,000) out of a total turnover of approximately HK\$7,421,000 (2008: approximately HK\$3,292,000). The gross margin has been improved from loss of 46% in 2008 to profit of 9% in the current year, 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\$23,114,000 (2008: approximately HK\$12,053,000). The increase in loss was mainly attributable to the provision for share-based payment amounting to HK\$14,500,000 (2008: Nil) for share options granted in April 2009.

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 business continues to deliver a stable growth for the year. Its fiber-optic trunk network has expanded to all major districts in Hunan Province and has a satisfactory increasing number of audience bases. The TV digitalisation related services are expected to sustain a healthy growth rate and generate steady cash inflow in the coming years after the process of the network restructuring, equipment upgrade and marketing strategy.

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 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 TV sales market in the PRC. However, the PRC was hit by several natural disasters and the outbreak of the financial turmoil in the second half of the year, which adversely impacted the general consumer spending sentiments. As a result, overall direct TV sales of NJ Everyday Buy slowed down. The managements hope this would be short-lived.

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 Hong Kong New Success International Group Investment Company Limited ("New Success") and its subsidiaries ("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 the PRC marketplace, nutraceuticals and functional foods have become a multi-billion dollar industry. Our managements believe rare nutraceuticals such as cordyceps and other related health products will represent the most attractive markets for nutraceutical industry in the PRC. 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.

New Success is one of the Group's subsidiaries owns the patent of foliage clone. We are honored to have Yangtze Delta Region Institute of Tsinghua University to become our strategic partner to develop the cultivated cordyceps-related products. The cordyceps-related products have exceptional advantages in the prevention of cancer, anti-cancer, enhance immunity, and other aspects. The Group believes that New Success has ample potential to generate attractive returns to the Group in the future.

The Group will continue to endeavour its best effort in keeping its established brand in Hong Kong and will also adopt 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

At 30 June 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 <i>(note (a))</i>	—

Note:

- (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 21 June 2007, Sky Dragon Holdings exercised share option to subscribe 10 million shares of the Company and as at 30 June 2009, Sky Dragon Holdings still held options to subscribe 20 million shares.

On 1 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 31 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 30 June 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 30 June 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 <i>(Note (a))</i>	104,520,000	5.70
Keenway Holdings Limited <i>(Note (a))</i>	104,520,000	5.70
Lee Yuk Lun	219,298,244	11.96
Au Yeung Kai Wah	290,625,000	15.84

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 30 June 2009.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its listed securities during the three months ended 30 June 2009. 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 2009.

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.

REVIEW BY AUDIT COMMITTEE

The quarterly result has been reviewed by the audit committee of the Company.

On Behalf of the Board
Wong Man Hung Patrick
Chairman

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 and Mr. Lee Chi Hwa Joshua.

Hong Kong, 13 August 2009