陽光文化媒體集團有限公司
SUN MEDIA GROUP HOLDINGS LIMITED

衛星娛樂

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INTERIM REPORT 2003 中期報告

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September, 2003

	Notes	Six months ended 30.9.2003 HK$'000 (unaudited)	Six months ended 30.9.2002 HK$'000 (unaudited)
Turnover — Continuing operation	3	**144,310**	96,120
Cost of sales		**(116,287)**	(57,863)
Gross profit		**28,023**	38,257
Other operating income		**2,884**	1,029
Administrative expenses		**(65,502)**	(72,725)
Amortisation of goodwill		**(3,796)**	(8,100)
Gain on deemed disposal of a subsidiary		**13,546**	—
Gain on disposal of subsidiaries		**2,821**	—
Impairment loss reversed in respect of prepaid airtime		**6,000**	—
Loss from continuing operation	4	**(16,024)**	(41,539)
Finance costs		**(1,095)**	(560)
Share of result of associates		**(4,019)**	—
Loss before taxation		**(21,138)**	(42,099)
Taxation	5	**—**	—
Loss before minority interests		**(21,138)**	(42,099)
Minority interests		**13,498**	(1,257)
Net loss for the period		**(7,640)**	(43,356)
Loss per share — basic and diluted	6	**HK(0.06) cents**	HK(0.46) cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th September, 2003

	Notes	30.9.2003 HK$'000 (unaudited)	31.3.2003 HK$'000 (audited)
Non-current assets			
Property, plant and equipment	7	**114,153**	161,579
Goodwill	8	**60,230**	64,026
Purchased programme rights		**19,663**	32,754
Investments in securities		**89,664**	88,884
Interests in associates		**7,043**	—
Pledged deposit placed with a finance company		**5,000**	5,000
		295,753	352,243
Current assets			
Self-produced programmes		**8,846**	7,759
Inventories		**26,281**	26,696
Debtors, prepayments and deposits	9	**154,797**	132,311
Investments in securities		**2,151**	1,929
Prepaid airtime		**28,214**	23,649
Bank balances and cash		**33,909**	64,829
		254,198	257,173
Current liabilities			
Creditors, deposits received and accrued charges	10	**92,357**	135,557
Obligations under finance leases — due within one year		**8,389**	7,681
Borrowings — due within one year		**4,493**	11,367
Amounts due to minority shareholders of a subsidiary		**472**	3,548
Taxation payable		**726**	3,808
		106,437	161,961
Net current assets		**147,761**	95,212
Total assets less current liabilities		**443,514**	447,455
Non-current liabilities			
Obligations under finance leases — due after one year		**6,716**	9,858
Borrowings — due after one year		**22,244**	22,024
		28,960	31,882
Minority interests		**36,480**	29,951
		378,074	385,622
Capital and reserves			
Share capital	11	**275,216**	275,216
Reserves	12	**102,858**	110,406
		378,074	385,622

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September, 2003

	Total equity HK$'000
At 1st April, 2002	403,614
Conversion of convertible bonds	44,460
Exercise of share options	7,282
Net loss for the period	(43,356)
At 30th September, 2002	412,000
Shares issued for acquisition of subsidiaries	169,755
Subscription of shares	30,000
Placement of shares, net of expenses	54,696
Conversion of convertible bonds	780
Share to be issued on conversion of loan	40,000
Exchange losses on translation of overseas operations and not recognised in the income statement	(135)
Share of exchange reserve by minority shareholders of a subsidiary	34
Net loss for the period	(321,508)
At 31st March, 2003	385,622
Exchange gain on translation of overseas operations and not recognised in the income statement	92
Net loss for the period	(7,640)
At 30th September, 2003	378,074

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September, 2003

	Six months ended	
	30.9.2003	30.9.2002
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Net cash used in operating activities	**(70,456)**	(92,220)
Net cash from (used in) investing activities	**26,679**	(53,485)
Net cash from financing	**12,765**	21,297
Net decrease in cash and cash equivalents	**(31,012)**	(124,408)
Cash and cash equivalents at beginning of period	**64,829**	142,610
Effect of foreign exchange rate changes	**92**	—
Cash and cash equivalents at end of period	**33,909**	18,202
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**33,909**	18,202

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th September, 2003

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Statement of Standard Accounting Practice ("SSAP") 25 (Revised) "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention, as modified for the investments in securities.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st March, 2003, except as described below.

In the current period, the Group has adopted SSAP 12 (Revised) "Income Taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions. The adoption of SSAP12 (Revised) has not had any material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Taxation

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

2. PRINCIPAL ACCOUNTING POLICIES — Continued

Taxation — Continued

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3. SEGMENT INFORMATION

The Group is currently engaged in media-related business, including broadcasting and publishing businesses.

Segment information about these businesses is presented below.

(a) Business segments

	Six months ended 30th September, 2003		
	Broadcasting HK$'000	Publishing HK$'000	Consolidated HK$'000
Segment revenue	73,641	70,669	144,310
Segment result	5,173	(37,564)	(32,391)
Gain (loss) on disposal of subsidiaries	11,074	(8,253)	2,821
	16,247	(45,817)	(29,570)
Gain on deemed disposal of a subsidiary			13,546
Finance costs			(1,095)
Share of results of associates			(4,019)
Loss before taxation			(21,138)
Taxation			—
Loss before minority interests			(21,138)
Minority interests			13,498
Net loss for the period			(7,640)

3. SEGMENT INFORMATION — Continued

(a) Business segments — Continued

	Six months ended 30th September, 2002		
	Broadcasting	Publishing	Consolidated
	HK$'000	HK$'000	HK$'000
Segment revenue	73,205	22,915	96,120
Segment result	(43,137)	1,598	(41,539)
Finance costs			(560)
Loss before taxation			(42,099)
Taxation			—
Loss before minority interests			(42,099)
Minority interests			(1,257)
Net loss for the period			(43,356)

(b) Geographical segments

	Turnover	
	Six months ended 30th September	
	2003	2002
	HK$'000	HK$'000
By geographical market :		
Hong Kong	**59,584**	600
Mainland China ("PRC")	**63,125**	82,424
Taiwan	**21,601**	13,096
	144,310	96,120

4. LOSS FROM CONTINUING OPERATION

	Six months ended 30.9.2003 HK$'000	Six months ended 30.9.2002 HK$'000
Loss from continuing operation has been arrived at after charging (crediting):		
Depreciation and amortisation of property, plant and equipment:		
— owned assets	**6,146**	8,821
— assets held under finance leases	**8,395**	22
	14,541	8,843
Operating lease rentals in respect of:		
— rented premises	**3,815**	5,597
— plant and equipment	**11**	2,460
	3,826	8,057
Staff costs, including directors' remuneration	**63,078**	31,658
Loss on disposal of property, plant and equipment	**2,042**	150
Unrealised (gain) loss on investments in securities	**(222)**	105
Interest income	**(221)**	(376)

5. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group had no assessable profit for the period. The Group has no estimated assessable profits in other jurisdictions for both periods.

6. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the period of approximately HK$7,640,000 (2002: HK$43,356,000) and the weighted average number of 13,760,791,380 (2002: 9,458,673,966) shares in issue during the period.

The computation of diluted loss per share does not assume the exercise of the Company's potential ordinary shares since their exercise would result in a reduction in loss per share.

7. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group has spent approximately HK$3.2 million on additions of property, plant and equipment.

8. GOODWILL

	HK$'000
GROSS AMOUNT	
At 1st April, 2003	153,027
Disposal of a subsidiary	(32,205)
At 30th September, 2003	120,822
AMORTISATION AND ACCUMULATED IMPAIRMENT	
At 1st April, 2003	89,001
Amortised for the period	3,796
Eliminated on disposal of a subsidiary	(32,205)
At 30th September, 2003	60,592
NET BOOK VALUES	
At 30th September, 2003	60,230
At 31st March, 2003	64,026

Goodwill is amortised using the straight line method over its estimated useful life, which ranges from 3 to 10 years.

9. DEBTORS, PREPAYMENTS AND DEPOSITS

The Group allows an average credit period of 30 to 180 days to its trade customers. The following is an aged analysis of trade debtors at the balance sheet date:

	30.9.2003 **HK$'000**	31.3.2003 HK$'000
Current	**53,452**	42,507
1 — 60 days overdue	**6,286**	9,641
61 — 90 days overdue	**698**	1,592
Over 90 days overdue	**3,631**	6,117
Trade debtors	**64,067**	59,857
Prepayments and deposits	**90,730**	72,454
	154,797	132,311

10. CREDITORS, DEPOSITS RECEIVED AND ACCRUED CHARGES

The following is an aged analysis of trade creditors at the balance sheet date:

	30.9.2003	31.3.2003
	HK$'000	HK$'000
0 — 60 days	**7,090**	29,429
61 — 90 days	**7,098**	6,174
Over 90 days	**4,611**	7,317
Trade creditors	**18,799**	42,920
Other creditors, deposits received and accrued charges	**73,558**	92,637
	92,357	135,557

11. SHARE CAPITAL

	Number of shares	**Amount**
	'000	HK$'000
Ordinary shares of HK$0.02 each		
Authorised:		
At 1st April, 2002, 30th September, 2002, 31st March, 2003 and 30th September, 2003	33,000,000	660,000
Issued and fully paid:		
At 1st April, 2002	9,303,606	186,072
Conversion of convertible bonds *(note)*	546,450	10,929
Exercise of share options	93,500	1,870
At 30th September, 2002	9,943,556	198,871
Shares issued for acquisition of subsidiaries	2,563,056	51,261
Subscription of shares	300,000	6,000
Placement of shares	940,000	18,800
Conversion of convertible bonds *(note)*	14,180	284
At 31st March, 2003	13,760,792	275,216
Shares issued in the period	—	—
At 30th September, 2003	13,760,792	275,216

11. SHARE CAPITAL — Continued

Note:

Pursuant to the subscription agreement (the "Subscription Agreement") entered into between the Company and Cosmos Media Investments Limited ("Cosmos Media"), the Company granted Cosmos Media rights to subscribe for a series of convertible bonds in an aggregate principal amount of up to US$26,000,000 in up to 3 tranches. On 9th July, 2002, the subscription of the tranche 1 bonds for the principal amount of US$6,000,000 was completed. Up to 31st March, 2003, a principal amount of US$5,800,000 (equivalent to approximately HK$45,240,000) were converted into 560,630,000 new ordinary shares of HK$0.02 each in the Company.

On 27th August, 2002, Cosmos Media agreed to forfeit its rights to subscribe for the tranche 2 and tranche 3 bonds pursuant to the Subscription Agreement and the Company agreed to grant to Cosmos Media an option (the "Option") to subscribe for additional ordinary shares of the Company for a total value of US$4,000,000 at any time from 27th August, 2002 up to and including the maturity date of the tranche 1 bonds at any of the actual conversion prices of the tranche 1 bonds which the holder of the tranche 1 bonds has actually adopted as the conversion price of the tranche 1 bonds into the ordinary shares of the Company. As at 30th September, 2003, none of the Option had been exercised by Cosmos Media.

Unless previously cancelled, redeemed or converted, the tranche 1 bonds would be redeemed at 100% of the principal amount on 8th July, 2005.

12. RESERVES

	Share premium HK$'000	Translation reserve HK$'000	Capital reserve HK$'000	Other reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1st April, 2002	457,955	(168)	3,490	–	(243,735)	217,542
Conversion of convertible bonds	33,531	–	–	–	–	33,531
Exercise of share options	5,412	–	–	–	–	5,412
Net loss for the period	–	–	–	–	(43,356)	(43,356)
At 30th September, 2002	496,898	(168)	3,490	–	(287,091)	213,129
Shares issued for acquisition of subsidiaries	118,494	–	–	–	–	118,494
Subscription of shares	24,000	–	–	–	–	24,000
Placement of shares, net of expenses	35,896	–	–	–	–	35,896
Conversion of convertible bonds	496	–	–	–	–	496
Shares to be issued	–	–	–	40,000	–	40,000
Exchange losses on translation of overseas operations	–	(135)	–	–	–	(135)
Share of exchange reserve by minority shareholders of a subsidiary	–	34	–	–	–	34
Net loss for the period	–	–	–	–	(321,508)	(321,508)
At 31st March, 2003	675,784	(269)	3,490	40,000	(608,599)	110,406
Exchange gain on translation of overseas operations	–	92	–	–	–	92
Net loss for the period	–	–	–	–	(7,640)	(7,640)
At 30th September, 2003	675,784	(177)	3,490	40,000	(616,239)	102,858

13. DISPOSAL OF SUBSIDIARIES

(a) During the six months ended 30th September, 2003, the Group disposed 70% interest in the issued share capital of both Sun Television Cybernetworks Enterprise Limited and Sun Satellite Television Company Limited (collectively known as "Sun TV") at a total consideration of RMB30,000,000 (equivalent to approximately HK$28,037,383). The net assets of these two companies at the date of disposal were as follows:

	HK$'000
Net assets disposed of	24,233
Gain on disposal	11,074
	35,307
Satisfied by:	
Cash consideration	28,037
Interests in associates	7,270
	35,307

(b) During the period, the Group disposed a subsidiary which was engaged in website business under Leadership Publishing Group Limited ("Leadership Publishing") at a total consideration of approximately HK$7,719,000. The net assets of this subsidiary at date of disposal were as follows:

	HK$'000
Net assets disposed of	15,258
Satisfied by :	
Cash consideration	3,927
Interests in associate	3,792
Loss on disposal	7,539
	15,258

14. PLEDGE OF ASSETS

At 30th September, 2003, leasehold land and buildings with an aggregate net book value of approximately HK$1.8 million (31st March, 2003: HK$1.8 million) and trade debtors of approximately HK$0.9 million (31st March, 2003: HK$0.7 million) were pledged to banks to secure certain banking facilities granted to the Group.

At 30th September, 2003, an amount of HK$5.0 million (31st March, 2003: HK$5.0 million) has been placed with a finance company as security for the repayment of the remaining instalments of finance leases entered into by a subsidiary of the Company.

15. RELATED PARTY TRANSACTIONS

(a) During the period, the Group purchased property, plant and equipment of approximately HK$550,000 from a subsidiary of Sun Stone Media Group Limited (six months ended 30.9.2002: the Group purchased property, plant and equipment of approximately HK$136,000 from Sun Stone Media Group Limited), in which Ms. Yang Lan and Dr. Wu Zheng, Bruno, directors of the Company, have beneficial interests. The property, plant and equipment were transferred at their net book values.

(b) During the period, the Group received licensing income of HK$5,393,258 (six months ended 30.9.2002: HK$2,696,629) from 佳訊錄影視聽有限公司(“佳訊”), in which Mr. Lien Tai Sneug, a director of a subsidiary of the Company, is also a director of 佳訊.

(c) During the period, the Group paid satellite fee of HK$963,082 (six months ended 30.9.2002: HK$481,541) to 卜樂視科技股份有限公司(“卜樂視”), in which Mr. Lien Tai Sneug, a director of a subsidiary of the Company, is also a director of 卜樂視.

(d) During the period, the Group purchased programme rights of approximately HK$716,000 (six months ended 30.9.2002: Nil) from 秋航傳播事業有限公司(“秋航”), in which Mr. Wu Chien Chiang, a director of the Company, is also a director of 秋航.

(e) During the period, the Group received advertising income of approximately HK$15,169,000 (six months ended 30.9.2002: Nil) and paid agency fee of approximately HK$5,056,000 (six months ended 30.9.2002: Nil) respectively from and to 媒體棧國際行銷事業有限公司(“媒體棧”), in which Mr. Wu Chien Chiang, a director of the Company, is also a director of 媒體棧.

(f) At 30th September, 2003, amount of HK$472,000 (31st March, 2003: HK$3,548,000) was due to minority shareholders of a subsidiary. The amount is unsecured, non-interest bearing and repayable on demand.

16. POST BALANCE SHEET EVENTS

(a) Pursuant to the Company's announcement dated 3rd October, 2003, the Board has conditionally passed a resolution on 26th September, 2003 to distribute 351,257,794 shares of Leadership Publishing ("LP shares") representing the entire interest (i.e. 63.7%) held by the Group in Leadership Publishing to all shareholders of the Company by way of a special interim dividend. The proposed distribution will be made to the shareholders whose names appear on the register of members of the Company on the record date in the proportion of approximately 255 LP shares for every 10,000 shares then held by the shareholders. The proposed distribution is subject to the approval of a proposed capital reorganisation in the Special General Meeting of the Company to be held on 5th December, 2003 ("SGM").

(b) As at date of the announcement in above (a), the Company does not have sufficient amount of distributable reserves for the purpose of carrying out the proposed distribution. In view of this and in order to facilitate the proposed distribution, the Board proposes to put forward a reorganisation proposal to the shareholders to effect the subject matters pursuant to the Bermuda Companies Act and the bye-laws of the Company involving the following steps:

(i) Capital reduction: the nominal value of each of the shares in issue will be reduced from HK$0.02 to HK$0.01 by cancelling the paid-up capital of HK$0.01 on each issued share;

(ii) Share sub-division: every authorised but unissued share of HK$0.02 (including those unissued shares arising from capital reduction) will be sub-divided into 2 new shares of HK$0.01 each;

(iii) Share premium cancellation: the entire balance of the share premium account of the Company as at the effective date of the capital reorganisation will be cancelled; and

(iv) The total credit arising from the capital reduction and the share premium cancellation will be used to set off the accumulated losses of the Company as at the effective date of the capital reorganisation and the balance will be transferred to the contributed surplus account of the Company.

16. POST BALANCE SHEET EVENTS — Continued

(c) The Purpose of the capital reorganisation is to allow the Company to have sufficient distributable reserves for the proposed distribution mentioned in (a) above. Implementation of this capital reorganisation would not, of itself, alter the underlying assets, liabilities, businesses, management or financial position of the Company and the Group, except for the payment of the related expenses. The proportionate interests of the shareholders in the Company would not be affected by the capital reorganisation. The new shares to be issued will rank pari passu in all respects with each other and the capital reorganisation will not change any relative rights of the shareholders. Application was made to the Stock Exchange for the listing of, and permission to deal in the new shares.

(d) The effect for the capital reorganisation will be conditional upon the following:

(i) the passing of a special resolution by the shareholders at SGM to approve the capital reorganisation;

(ii) the Listing Committee of the Stock Exchange granting approval for the listing of, and the permission to deal in, the new shares to be issued upon effective capital reorganisation; and

(iii) compliance with section 46(2) of the Companies Act (which includes publication of a notice in relation to the capital reduction in Bermuda).

A circular containing particulars related to the above proposed distribution and the capital reorganisation and a notice convening the SGM has been despatched to the shareholders on 23rd October, 2003.

17. LITIGATION

On 17th December, 2002, Mr. Lee Ping issued a Writ of Summons against Sun Television Cybernetworks Company Limited ("STCC"), a wholly-owned subsidiary of the Company, for (i) the outstanding operation costs incurred by TV Viagens (Macau) S.A.R.L. ("Macau TV") for the sums of USD300,000, RMB4,299,825 and MOP2,804,305 of which obligation to pay for the said operation costs of Macau TV undertaken by STCC in the written agreement ("Written Agreement") made on 8th August, 2000 between Mr. Lee Ping, Mr. Xu Chenghai, Mr. Chen Jianren and Kuok Luen (Macau) Agente de Programas Televisivos, Limitada as one part and STCC as the other part; (ii) damages for breach of the Written Agreement on the part of STCC for MOP13,627,048.15 and MOP2,035,000 being loans and director's remuneration respectively waived by Mr. Lee Ping pursuant to the Written Agreement and; (iii) damage, interest and costs. The Company is currently obtaining legal advice regarding the proceeding and considering the appropriate course of action to be taken.

17. LITIGATION — Continued

STCC commenced a third party claim against Macau Media Holdings under High Court Action No. 4716 of 2002 proceeding mentioned above. STCC requires that (i) the above question or issue, namely, alleged non-payment, alleged breach of the Written Agreement, alleged damages, interest and costs, should be determined not only as between Mr. Lee Ping and STCC but also as between the either or both of them and Macau Media Holdings as the third party; (ii) claims against Macau Media Holdings an indemnity for Mr. Lee Ping's alleged claims; (iii) claims against Macau Media Holdings damages arising out of the breach of an agreement dated 11th September, 2002 made between STCC and Macau Media Holdings; and (iv) interests and costs. The third party notice was issued on 20th December, 2002. On 17th March, 2003, STCC filed and served a Third Party Statement of Claim and on 14th April, 2003, Macau Media Holdings filed and served a Defence.

On 20th December, 2002, Sun Television Cybernetworks Enterprise Limited ("STCE") issued a Writ of Summons against MSTV Five Star Channel Co., Limited under High Court Action No.4759 of 2002 to claim for the sum of US$540,000 or its Hong Kong dollars equivalent at the time of payment and damages arising out of the defendant's failure to pay the licence fee which constituted a breach of a sub-licensing agreement dated 11th September, 2002 made between STCE and MSTV Five Star Channel Co., Limited together with interest thereon and costs. On 20th March, 2003, MSTV Five Star Channel Co., Limited filed and served a Defence.

Save as the aforesaid, no member of the Group is engaged in any litigation or arbitration of material importance and the Directors are not aware of any litigation or claims of material importance pending or threatened against any member of the Group.

BUSINESS REVIEW & PROSPECTS

PERFORMANCE COMPARISON

The Group has experienced a challenging period as the global media industry remained depressed. The Group's advertising business was unfavorably affected both by the outbreak of the Severe Acute Respiratory Syndrome ("SARS") during the six months' ended 30th September, 2003, and the ambiguous direction of adjustments in the PRC's policies for overseas satellite TV. Despite this difficult market environment and the severe competition, the Group has overrode these external pressures to complete its business transformation, getting rid of its single reliance on advertising revenue and expanding its business activities to embrace three major businesses - TV, publishing distribution and the education business. It was encouraging that the TV business, the Group's core business, successfully achieved its first profit during the reporting period, laying foundation for stable revenue growth and for realising turnaround results in the future.

For the six-month period ended 30th September, 2003, the Group recorded a total turnover of approximately HK$144.3 million, a growth of approximately 50% as compared to the corresponding period last year of approximately HK$96.1 million. To overcome the severe competition in the market, the Group continues to review its strategies to adjust and rationalise its business and operational model. As such, the Group significantly narrowed its loss attributable to shareholders by 82.4% to approximately HK$7.64 million (2002: HK$43.4 million). The loss was mainly from the newspaper business of Leadership Publishing. Loss per ordinary share was 0.06 HK cents (2002: 0.46 HK cents).

BUSINESS REVIEW

The TV Business

During the period, revenue contribution from the TV business, one of the core operations of the Group, reached approximately HK$73.6 million (2002: HK$73.2 million), accounting for approximately 51% of the Group's total revenue. Advertising revenue of the TV business decreased by 35% as compared to the corresponding period last year due to the adverse effect to the advertising expenditure from advertisers as a result of SARS outbreak. Nevertheless, the Group successfully achieved a profit of approximately HK$16.25 million in TV business during the review period. This is the first profit from the Group's TV business in its 36 months of operation. TV programme production and distribution businesses, which grew rapidly during the period, recorded a turnover of approximately HK$55.7 million, representing an increase of approximately 20% when compared to same period of last year. The TV business will become one of the Group's major businesses.

With its strong foothold and prominent brand name, sizeable audience coverage as well as its social acclaim in the Greater China region, the Group's TV business revenues were derived from the advertising revenue (representing approximately 12% of the total revenue of the Group), the programme production and broadcasting rights distribution businesses (representing approximately 39% of the total revenue of the Group) from both the PRC and its overseas markets.

Receivables of the TV business has also shown great improvement . Compared to 30th September, 2003, as at the date hereof, the receivables of TV business were reduced by approximately 49%, and those from PRC market were reduced by approximately 70%.

The TV Business in the PRC

With limited financial resources support and within a relatively short period of time as compared to similar market competitors, the Group has successfully boosted Sun Satellite TV into one of the leading foreign satellite channels in the PRC. Nevertheless, due to various constraints imposed by the PRC broadcasting policy, Sun Satellite TV has not achieved all its goals as planned. In view of the current market situation, there are more than 30 foreign satellite television channels with restricted landing rights and thousands of domestic television channels in the PRC, the room for expansion in advertising revenue for a free-to-air satellite television channels is limited if the Group continues to operate thematic channels only. To compete with other channels, there must be significant injection of financing and programmes to expand variety and range of content. During the six-month period under review, the Group's management therefore determined to further lower its direct operating costs to cope with the dramatic changes in the PRC's operating environment for foreign satellite TV channels. In May 2003, the Group successfully brought in a strategic investor, Strategic Media International Limited ("Strategic Media"), forming an alliance to jointly develop Sun Satellite TV's existing business and enhance its long-term operational efficiencies. Mr. Qin Hui, Managing Director of Strategic Media is very experienced in the media entertainment industry in the PRC, and particularly in programme production and distribution, theatre operations and artiste agency services. Strategic Media's related companies possess a rich film library and strong advertiser network which will help to widen the advertising base of the Sun TV's satellite television channel in the future.

With this alliance, the Group will continue to operate its existing Sun Satellite TV with a 30% stake, after the sale of a 70% stake to Strategic Media for a cash consideration of RMB30 million. In return, the Group reserves the exclusive right to 2 hours of programming everyday for Sun Satellite TV to broadcast its original programmes, such as “Yang Lan One On One” and “Immortal Marriage” on a free of charge basis. Other programme slots will also feature top quality programmes from Strategic Media and other programme producers. Under the contract, Strategic Media shall also pay RMB50 million, which includes a cash value of RMB35 million, to engage the Group to produce and provide 350 hours of quality programmes over a period of 36 months starting from 1st June, 2003.

In addition, Strategic Media will also guarantee the Group with a net profit after tax of not less than HK$30 million per year derived from Sun Satellite TV for the next 3 years and advertising income of not less than HK$30 million every year for the coming 5 years from the beginning of 1st June, 2003. Since the operation transfer between two parties was started on 1st July, the contribution from the TV business transformation was not fully reflected in this interim results.

The Overseas TV Business

Another revenue stream for the Group, JET TV is in the mature stages of its development with its well-established operations. Without relying on the Group’s financial support, JET was still able to contribute a turnover of approximately HK$21.6 million, accounting for approximately 15% of the Group’s total turnover, and continued to contribute a profit of approximately HK$0.2 million to the Group during the period under review.

In the coming year, JET TV will maintain its business goals to further enrich its programme content by introducing the latest and most popular dramas to enlarge its audience coverage to the various age groups. Dramas, featuring popular screen idols, are broadcasted bilingually, with a Mandarin voiceover in addition to the original language. Popular self-produced programmes will also be extended to everyday broadcasts, creating greater audience interaction and recognition. JET TV has also successfully reached younger audiences by strengthening its cartoon time slot. Looking to its advertising promotion strategies, JET TV will customise its advertising plans for clients in the future to support their marketing campaigns and public relations activities. In the competitive advertising industry, JET TV aims to be the ideal business partner for its advertising clients.

With JET TV’s successful penetration into North America last year, JET TV successfully reached Hong Kong audiences through the pay TV service of Hong Kong Cable Television Limited in October 2003.

The Publishing and Distribution Business

With the progressive development of the publishing and distribution business, the Group recorded satisfactory results, generating a turnover of approximately HK$70.7 million, representing a growth of 208% (2002: HK$22.9 million), and accounting for 49% of the Group's turnover.

Jingwen Entertainment Group

With its quality TV books and audio video products featuring history, biographies and interviews, Jingwen Entertainment Group has successfully penetrated the publishing market. Since the record agency business is recognised as a sunset industry around the world and in view of the very serious piracy problems in the PRC, the Group decided to dispose of Jingwen Entertainment's record business. However, the Group retained its education publishing business under Jingwen Multimedia Education, supporting the Group's main objective to develop the educational business in the PRC.

Leadership Publishing

Within a short period of time after its transformation into a healthy mass newspaper in March 2003, Sing Pao Daily News ("Sing Pao"), a subsidiary of Leadership Publishing, successfully extended its readership base, particularly amongst the younger and more well-educated groups.

Unfortunately, as a result of the outbreak of SARS, the business operations of Sing Pao were affected during the review period. However, supported by its strong and solid readership base, Sing Pao's total income from advertising and publications quickly recovered to pre-SARS levels in June when the World Health Organisation officially removed Hong Kong from its list of infected areas. Revenue from Sing Pao amounted to approximately HK$58.7 million representing approximately 41% of the Group's turnover in the period under review.

With the stringent cost control measures taken by the management, Sing Pao's operating costs were substantially reduced by approximately 26% in the half-year period under review as compared to the preceding half-year. In fact, the overall business operation of Sing Pao has shown a significant improvement and continues to improve its performance progressively.

The Education Business

With the huge demand for quality educational products ranging from the secondary school level to the primary school level, Jingwen Multimedia Education has been actively developing and launching a variety of interactive learning audio and video products for distribution and sale through its sales network in the PRC market. The Group has been seizing every opportunity to cooperate with the education authority in the PRC to boost the demand for English learning products, benefiting its product promoting and sales.

As the education business is a developing business and in its early stages, income from this segment has not fully been reflected in these interim results. The business segment is expected to show an improved performance in the second half of the financial year.

PROSPECTS

Driven by its mission "to educate through entertainment, to illuminate through information", though the Group has encountered a number of difficulties as an infant corporation, it has grown into a dynamic and established business.

Under the leadership of Ms. Yang Lan and Dr. Bruno Wu, the Group is now celebrating its 3rd anniversary of operations. Adopting the philosophy of prominent investor, Mr. Warren Buffett — "Stay within your circle of competence", the management's emphasis for the new direction of the Group's business development is to concentrate on culture and education with TV acting as its main distribution medium. With the established optimal business model, the Group will enhance its image from culture to education and affirm its mission as a cultural medium.

Currently, the TV production department which specialises in history and cultural thematic programme production has already reached profitability, while Jingwen's education department is also heading in this direction. In addition, the Group is ready to grasp every investment opportunity in line with the PRC's recent open policies in the publishing and education businesses.

The TV Business

The Group will continue to produce 'Yang Lan One on One', 'Immortal Marriage', 'Story Behind the Treasure' and long-length features such as the recently completed 'Zhenghe' saga, to cater for various audience preferences on the one hand and to enhance its attractiveness on the other.

Regarding its overseas business development, the Group will further enhance its audience coverage of Sun Satellite TV and JET TV Channels in the US, Taiwan and South East Asia regime through right of access and broadcasting in various TV stations.

In addition, the management plans to merge Sun TV's production and programme department with the production and programme copyright merchandising departments of Jingwen Entertainment Group into a "Content Department". The Group also plans to combine various sections — Sun TV's 2-hour daily programme time slot, the TV programme distribution network covering over 100 TV stations across the country, and the pay TV distribution business, which commenced operations in a number of provinces — into a "Channel Department". The management will also continue the operations of the existing advertising sales department and its investment in Shangdong Hongzhi Advertising Co., Ltd ("Shangdong Hongzhi"), and is planning to form joint ventures or alliances with one or two leading advertising companies, aiming to establish a "Sales Department". As a result, the Group's three departments — "Content", "Channel" and "Sales" will reinforce its positioning as an educational and cultural media group.

Riding the success of its quality thematic documentary programmes, the Group will increase its investment in programme production. In future, the Group will focus its efforts to produce wide variety of programmes to meet the market needs and actively explore potential customers for its flagship programmes through its extensive distribution network in the PRC. Additionally, through the strategic alliances with established PRC advertising agencies and major customers such as 盛世金鷹, Pan Asia International and Shangdong Hongzhi, the Group will be able to lower operating costs in establishing an extensive advertising sales network which will also offer more integrated marketing services. This will enable the Group to strengthen its market share in both TV advertising and quality programme distribution, ensuring a stable and sustainable source of income.

The Publishing and Distribution Business

Leveraging its extensive distribution network in the PRC, the Group will continue to develop its publishing and distribution business by enhancing its content and distribution through other media channels such as books and VCDs, strengthening the income streams for the Group.

After the Group's acquisition of a majority stake in Leadership Publishing in January 2003, the business of Leadership Publishing has shown significant improvement. The management has been reviewing its business development from time to time. In view of the significant changes in the overall economy and business environment, after careful review of the business of the Group, the management is of the view that an integrated structure between the Group and Leadership Publishing may not be able to be continued to fit into the latest business development direction of the Group which emphasis on the Group's core competencies in the educational and cultural related multimedia business. To express the Group's gratitude for the shareholders' long-term support, the management proposed to distribute its 63.7% stake in Leadership Publishing to all the existing shareholders by way of a special interim dividend in September, upon passing of the relevant resolutions of capital reorganisation in the Special General Meeting to be held in December 2003.

The proposed distribution of special interim dividends aims to reposition the Group by focusing all resources to develop cultural and educational related multimedia business. This also allows the shareholders to continue their investment in Leadership Publishing. The management believes that the Group and Leadership Publishing will continue their close cooperation after passing the proposal. Distribution of the shares of Leadership Publishing as special interim dividends thus provides direct and excellent one-off returns for those who have invested in Sun Media Group, and enables the Group to establish a clear position for its business, paving the way to deliver profit steadily.

The Education Business

The Group will place greater effort in enhancing its competitive advantages in the education business. This will allow the Group to build a solid base for stable revenue growth and profitability in the future.

The Group will promote the application of 京文探知學堂研究性學習立體課程 in the educational reforms of primary and secondary schools. The programme was jointly launched by Jingwen Multimedia Education and the U.S.-based Discovery Communication Inc. (DCI) and was introduced by Discovery Licensing Inc.. This foreign education programme was the first of its kind approved by the relevant authority of the PRC. Additionally, this programme covers interesting education solutions for youngsters as well as education, examination and diploma training solutions for adults. Negotiations with several prominent strategic partners for possible cooperations are underway.

Conclusion

In future, as the Group will reinforce its positioning in the educational and cultural areas as well as its core competencies in TV contents production, the focus of the business operations will be mainly on TV programme production and distribution, and pay-TV businesses. Additionally, Jingwen Multimedia Education business will be the prime focus of the publishing distribution business.

Barring unforeseen circumstances, the management believes that by keeping track of the market environment, adjusting the business and operational model appropriately with determination and, committing itself totally to its mission and corporate culture, the time for breakeven for the Sun Media Group will be arriving shortly.

EMPLOYEES AND REMUNERATION POLICIES

At 30th September, 2003, the Group employed a workforce of 715 (2002: 522). Total staff costs including contributions to the mandatory provident fund scheme incurred during the period amounted to approximately HK$63.1 million (2002: 31.7 million). The Group offers a comprehensive remuneration and benefit package to its employees and remuneration policies are reviewed by the management on a regular basis. The Group also adopts a share option scheme to motivate and retain a team of competent employees.

LIQUIDITY AND FINANCIAL RESOURCES

At 30th September, 2003, the Group's current ratio was 2.4 (31st March, 2003: 1.6), with current assets of approximately HK$254.2 million against current liabilities of approximately HK$106.4 million. Cash and cash equivalents was approximately HK$33.9 million. The Group's gearing ratio was 0.08 (31st March, 2003: 0.08). The gearing ratio is calculated based on the Group's total non-current liabilities and shareholders' fund of approximately HK$29.0 million and HK$378.1 million respectively.

Outstanding convertible bonds at 30th September, 2003 amounted to approximately HK$1.6 million. At 30th September, 2003, the bank borrowings were approximately HK$4.5 million. The general banking facilities are secured by fixed assets of net book value of approximately HK$1.8 million and by debtors of approximately HK$0.9 million.

CONTINGENT LIABILITIES

As at 30th September, 2003, the Group has guarantees given to a bank for facility granted to an associate and a subsidiary company a total amount of approximately HK$23 million (utilised amount approximately HK$1.7 million) and a guarantee given to an outsider on behalf of this associate company for service agreement amounting to approximately HK$14.3 million. Other than the above, there has been no material changes in contingent liabilities of the Group.

FOREIGN CURRENCIES AND TREASURY POLICY

Most of the Group's business transactions, assets and liabilities are denominated in Hong Kong Dollars and Renminbi. During the period, the Group did not have any material fixed interest rate borrowings and did not engage in any financial instruments for hedging or speculative activities. There has no material changes in the risk of fluctuation in exchange rates since the Annual Report 2003.

SPECIAL INTERIM DIVIDEND

On 26th September, 2003, the Board has conditionally resolved to distribute a total of 351,257,794 shares in Leadership Publishing held by the Group to all shareholders of the Company as a special interim dividend. Details of the distribution was disclosed in the circular of the Company dated 23rd October, 2003. The proposed distribution in specie is subject to the shareholders' approval of a capital reorganisation in the Special General Meeting to be held on 5th December, 2003.

Save for the above, the Board does not recommend the payment of an interim dividend for the six months ended 30th September, 2003 (2002: Nil).

DIRECTORS' RIGHT TO ACQUIRE SHARES

Interests in share options of the Company were as follows :

Directors	Number of share options outstanding as at 30th September, 2003	Exercise Price HK$	Exercisable period of share options
Ms. Yang Lan	37,000,000	0.176	27.4.2000 — 26.4.2010
	80,000,000	0.152	31.1.2001 — 30.1.2011
	30,000,000	0.109	4.1.2002 — 3.1.2012
Mr. Duan Yongji	40,000,000	0.109	4.1.2002 — 3.1.2012
	10,000,000	0.071	16.9.2002 — 15.9.2012
Dr. Wu Zheng, Bruno	30,000,000	0.241	5.9.2000 — 4.9.2010
	80,000,000	0.152	31.1.2001 — 30.1.2011
Mr. Chen Han Yuan	1,000,000	0.176	27.4.2000 — 26.4.2010
	1,000,000	0.152	31.1.2001 — 30.1.2011
	1,000,000	0.129	14.6.2001 — 13.6.2011
	3,000,000	0.072	8.8.2002 — 7.8.2012
Mr. Chen Xiaotao	15,000,000	0.114	7.1.2002 — 6.1.2012
	10,000,000	0.071	16.9.2002 — 15.9.2012
Mr. Li John Zongyang	10,000,000	0.071	16.9.2002 — 15.9.2012
Mr. Lin Ning	8,000,000	0.072	8.8.2002 — 7.8.2012
Mr. Wu Chien-Chiang	15,000,000	0.071	16.9.2002 — 15.9.2012

Interests in share options of a subsidiary of the Company, Leadership Publishing, were as follows :

Directors	**Number of share options outstanding as at 30th September, 2003**	**Exercise Price** HK$	**Exercisable period of share options**
Dr. Wu Zheng, Bruno	5,362,000	0.593	13.8.2003 — 12.8.2013
Mr. Li John Zongyang	4,825,800	0.593	13.8.2003 — 12.8.2013
Mr. Lin Ning	4,289,600	0.593	13.8.2003 — 12.8.2013

DIRECTORS' INTERESTS IN SECURITIES

As at the 30th September, 2003, other than disclosed above, the interests or short positions of the directors, chief executives and their respective associates in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) which require notification to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (including interests and short positions which any such director or chief executive is taken or deemed to have under such provisions of the Securities and Futures Ordinance) or which are required pursuant to Section 352 of Securities and Futures Ordinance to be entered into the register maintained by the Company under Section 352 of the Securities and Futures Ordinance or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange were as follows:

Name of Directors	Nature of Interests	Number of Shares
Ms. Yang Lan	Personal and Family and Corporate	637,940,000 *(Note)*
Dr. Wu Zheng, Bruno	Personal and Family	637,940,000 *(Note)*
Mr. Li John Zongyang	Personal	20,000,000
Mr. Wu Chien-Chiang	Personal	100,000,000

Note :

307,940,000 shares are held by Ms. Yang Lan, who is the spouse of Dr. Wu Zheng, Bruno. Ms. Yang Lan is also deemed to be interested in 300,000,000 shares held by Excel Asia Profits Limited, which is owned as to 80% by Ms. Yang Lan.

30,000,000 shares are held by Dr. Wu Zheng, Bruno, who is the spouse of Ms. Yang Lan.

Therefore, Dr. Wu Zheng, Bruno and Ms. Yang Lan are deemed to be interested in the 637,940,000 shares.

SUBSTANTIAL SHAREHOLDERS

As at 30th September, 2003, so far as is known to the directors or chief executives of the Company, the following corporations (other than a director or chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under Section 336 of Part XV of the Securities and Futures Ordinance was:

Name	Number of Shares	Percentage of holding	Number of underlying shares of the Company	Percentage of holding
SINA Corporation	2,028,122,000	14.74%	—	0.00%
China Strategic Holdings Limited	553,518,600	4.02%	155,048,000*	1.13%

* Such new shares will be allotted and issued at a price of HK$0.10 (subject to adjustment) each by the Company to China Strategic Holdings Limited, pursuant to an agreement dated 23rd November, 2002 (the "Agreement") and made between, among others, the Company and China Strategic Holdings Limited, as consideration for the assignment of the rights of China Strategic Holdings Limited to the Company in respect of a shareholder's loan of HK$15,504,800 to Leadership Publishing at the expiry of 24 months after completion of the Agreement. Details of the Agreement were disclosed in the announcement of the Company dated 9th December, 2002.

Save as disclosed above, the Company had not been notified of any other interests representing 5% or more of the nominal value of the issued ordinary shares of the Company that carry a right to vote in all circumstances at general meetings of the Company.

SHARE OPTION SCHEME

The following table discloses details of share options of the Company held by the directors of the Company and the employees of the Group in such holdings during the period:

Date of options granted	**Exercisable period**	**Exercise Price**	**No. of outstanding as at 31.3.2003 and 30.9.2003**
		HK$	
Directors			
27.4.2000	27.4.2000 — 26.4.2010	0.176	38,000,000
5.9.2000	5.9.2000 — 4.9.2010	0.241	30,000,000
31.1.2001	31.1.2001 — 30.1.2011	0.152	161,000,000
14.6.2001	14.6.2001 — 13.6.2011	0.129	1,000,000
4.1.2002	4.1.2002 — 3.1.2012	0.109	70,000,000
7.1.2002	7.1.2002 — 6.1.2012	0.114	15,000,000
8.8.2002	8.8.2002 — 7.8.2012	0.072	11,000,000
16.9.2002	16.9.2002 — 15.9.2012	0.071	45,000,000
			371,000,000

Date of options granted	Exercisable period	Exercise Price	No. of outstanding as at 31.3.2003 and 30.9.2003
		HK$	
Employees			
27.4.2000	27.4.2000 — 26.4.2010	0.176	60,900,000
13.6.2000	13.6.2000 — 12.6.2010	0.231	3,000,000
17.7.2000	17.7.2000 — 16.7.2010	0.220	1,000,000
21.7.2000	21.7.2000 — 20.7.2010	0.241	6,000,000
5.9.2000	5.9.2000 — 4.9.2010	0.241	4,800,000
14.11.2000	14.11.2000 — 13.11.2010	0.186	2,400,000
8.12.2000	8.12.2000 — 7.12.2010	0.183	6,000,000
27.12.2000	27.12.2000 — 26.12.2010	0.151	3,000,000
31.1.2001	31.1.2001 — 30.1.2011	0.152	58,580,000
6.3.2001	6.3.2001 — 5.3.2011	0.176	100,000
23.4.2001	23.4.2001 — 22.4.2011	0.097	17,000,000
14.6.2001	14.6.2001 — 13.6.2011	0.129	1,000,000
4.1.2002	4.1.2002 — 3.1.2012	0.109	48,960,000
25.3.2002	25.3.2002 — 24.3.2012	0.152	64,000,000
25.3.2002	25.3.2002 — 24.3.2012	0.176	1,450,000
8.8.2002	8.8.2002 — 7.8.2012	0.072	31,000,000
16.9.2002	16.9.2002 — 15.9.2012	0.071	64,000,000
			373,190,000
			744,190,000

The following table discloses details of share options of a subsidiary of the Company, Leadership Publishing, held by the directors of the Company and employees of the Group during the period:

Date of options granted	Exercisable period	Exercise Price	No. of outstanding as at 30.9.2003
		HK$	
Directors			
13.8.2003	13.8.2003 — 12.8.2013	0.593	14,477,400

Date of options granted	Exercisable period	Exercise Price	No. of outstanding as at 30.9.2003
		HK$	
Employees			
13.8.2003	13.8.2003 — 12.8.2013	0.593	18,767,000
			33,244,400

PURCHASE, REDEMPTION ON SALE OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the interim financial statements for the six months ended 30th September, 2003.

CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the period ended 30th September, 2003, in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange.

By Order of the Board
Yang Lan
Chairperson

Hong Kong, 21st November, 2003

陽光文化媒體集團有限公司
SUN MEDIA GROUP HOLDINGS LIMITED

香港北角英皇道101號成報大廈7樓702室
Room 702, 7/F., Sing Pao Building
101 King's Road, North Point, Hong Kong
電話 Tel : 652-2570 2201 傳真 Fax : 652-2169 0390

www.chinasunmedia.com