SUN MEDIA 陽光文化

SUN MEDIA GROUP HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2003

INTERIM RESULTS

The board of directors (the "Board") of Sun Media Group Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th September, 2003. The results, together with the comparative figures for the corresponding period in 2002, are summarised below :

CONSOLIDATED INCOME STATEMENT

		30th September,	
		2003	2002
	Notes	***HK$'000***	*HK$'000*
		Unaudited	Unaudited
Turnover — Continuing operation	2	**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	3	**(16,024)**	(41,539)
Finance costs		**(1,095)**	(560)
Share of results of associates		**(4,019)**	—
Loss before taxation		**(21,138)**	(42,099)
Taxation	4	**—**	—
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	5	**HK (0.06) cents**	HK (0.46) cents

Notes

1. **Significant 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.

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.

2. **Segment Information**

The Group's turnover and results from operations for the period, analysed by principal activity were as follows:

	Turnover 30th September,		Segment results 30th September,	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
By principal activity				
Broadcasting	**73,641**	73,205	**16,247**	(43,137)
Publishing	**70,669**	22,915	**(45,817)**	1,598
	144,310	96,120	**(29,570)**	(41,539)

Geographical segments

	Turnover 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

3. **Loss from continuing operation has been arrived at after charging (crediting):**

	30th September,	
	2003	2002
	HK$'000	*HK$'000*
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)

4. **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.

5. **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.

SPECIAL INTERIM DIVIDEND

On 26th September, 2003, the Board has conditionally resolved to distribute a total of 351,257,794 shares in Leadership Publishing Group Limited ("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 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).

BUSINESS REVIEW AND 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 overroded 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 realizing 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$96.1 million. To overcome the severe competition in the market, the Group continues to review its strategies to adjust and rationalize its business and operational model. As such, the Group significantly narrowed its loss attributable to shareholders by 82.4% to approximately HK$ 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 customize 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 recognized 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 Organization 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 specializes 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 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 subsidiary company an 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 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.

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 of Hong Kong Limited (the "Stock Exchange").

PUBLICATION OF DETAILED INTERIM RESULTS ANNOUNCEMENT ON THE WEBSITE OF THE STOCK EXCHANGE

A detailed interim results announcement of the Company containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange as soon as practicable.

By Order of the Board
Yang Lan
Chairperson

Hong Kong, 21st November, 2003