SUN MEDIA
陽光文化

# 陽光文化媒體集團有限公司
# Sun Media Group Holdings Limited

INTERIM REPORT 2002-2003

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Deloitte
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**TO THE BOARD OF DIRECTORS OF**
**SUN MEDIA GROUP HOLDINGS LIMITED**
*(Incorporated in Bermuda with limited liability)*

We have been instructed by the Company to review the interim financial report set out on pages 2 to 15.

## DIRECTORS' RESPONSIBILITIES

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

## REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

## REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th September, 2002.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong, 29th November, 2002

# CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September, 2002

| | Notes | Six months ended 30.9.2002 HK$ (unaudited) | 30.9.2001 HK$ (audited) |
|---|---|---|---|
| Turnover | | **96,120,403** | 146,315,934 |
| Cost of sales | | **(57,863,413)** | (79,435,555) |
| Gross profit | | **38,256,990** | 66,880,379 |
| Other operating income | | **1,028,540** | 2,568,764 |
| Allowances for bad and doubtful debts | | **–** | (40,753,120) |
| Amortisation of goodwill | | **(8,099,661)** | (3,060,523) |
| Administrative expenses | | **(72,724,972)** | (61,329,213) |
| Loss from operations | 4 | **(41,539,103)** | (35,693,713) |
| Finance costs | | **(559,716)** | (1,656,273) |
| Loss before taxation | | **(42,098,819)** | (37,349,986) |
| Taxation | 5 | **–** | – |
| Loss before minority interests | | **(42,098,819)** | (37,349,986) |
| Minority interests | | **(1,257,155)** | (5,181) |
| Net loss for the period | | **(43,355,974)** | (37,355,167) |
| Loss per share – basic and diluted | 6 | **HK0.46 cents** | HK0.56 cents |

# CONDENSED CONSOLIDATED BALANCE SHEET

At 30th September, 2002

| | Notes | 30.9.2002<br>HK$<br>(unaudited) | 31.3.2002<br>HK$<br>(audited) |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 7 | **79,339,070** | 64,048,177 |
| Goodwill | 8 | **192,744,427** | 105,407,235 |
| Purchased programme rights | | **40,429,008** | 25,360,472 |
| Investments in securities | | **34,683,596** | 31,560,000 |
| Debtors – due after one year | 9 | **33,834,814** | – |
| | | **381,030,915** | 226,375,884 |
| Current assets | | | |
| Purchased programme rights | | **–** | 3,271,966 |
| Self-produced programmes | | **8,103,299** | 6,667,256 |
| Inventories | | **15,487,222** | 55,615 |
| Debtors, prepayments and deposits | 9 | **200,940,544** | 119,139,376 |
| Investments in securities | | **555,132** | 660,607 |
| Bank balances and cash | | **18,202,165** | 142,610,086 |
| | | **243,288,362** | 272,404,906 |
| Current liabilities | | | |
| Creditors, deposits received and accrued charges | 10 | **176,990,866** | 49,068,104 |
| Obligations under finance leases – due within one year | | **66,500** | 67,200 |
| Borrowings – due within one year | 11 | **16,140,935** | 7,168,992 |
| Amount due to a minority shareholder of a subsidiary | | **2,428,016** | – |
| Taxation payable | | **4,809,537** | – |
| | | **200,435,854** | 56,304,296 |
| Net current assets | | **42,852,508** | 216,100,610 |
| Total assets less current liabilities | | **423,883,423** | 442,476,494 |
| Non-current liabilities | | | |
| Obligations under finance leases – due after one year | | **102,200** | 135,800 |
| Borrowings – due after one year | 11 | **4,007,839** | 36,465,548 |
| | | **4,110,039** | 36,601,348 |
| Minority interests | | **7,773,468** | 2,260,756 |
| | | **411,999,916** | 403,614,390 |
| Capital and reserves | | | |
| Share capital | 12 | **198,871,114** | 186,072,114 |
| Reserves | 13 | **213,128,802** | 217,542,276 |
| | | **411,999,916** | 403,614,390 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September, 2002

| | Total equity<br>HK$ |
|---|---|
| At 1st April, 2001 | 185,513,114 |
| Shares issued for acquisition of a subsidiary | 60,000,000 |
| Conversion of convertible bonds | 46,020,000 |
| Exercise of share options | 1,152,500 |
| Exchange losses on translation of overseas subsidiaries not recognised in the income statement | (32,290) |
| Net loss for the period | (37,355,167) |
| At 30th September, 2001 | 255,298,157 |
| New issue of shares, net of expenses | 164,196,824 |
| Conversion of convertible bonds | 16,380,000 |
| Net loss for the period | (32,260,591) |
| At 31st March, 2002 | 403,614,390 |
| Conversion of convertible bonds | 44,460,000 |
| Exercise of share options | 7,281,500 |
| Net loss for the period | (43,355,974) |
| At 30th September, 2002 | 411,999,916 |

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September, 2002

| | Six months ended | |
|---|---|---|
| | **30.9.2002** | 30.9.2001 |
| | **HK$** | HK$ |
| | **(unaudited)** | (audited) |
| Net cash used in operating activities | **(92,219,628)** | (62,635,992) |
| Net cash (used in) from investing activities | **(53,485,398)** | 17,351,503 |
| Net cash from (used in) financing | **21,297,105** | (4,351,814) |
| Net decrease in cash and cash equivalents | **(124,407,921)** | (49,636,303) |
| Cash and cash equivalents at beginning of period | **142,610,086** | 66,046,308 |
| Effect of foreign exchange rate changes | **–** | (32,290) |
| Cash and cash equivalents at end of period | **18,202,165** | 16,377,715 |
| Analysis of the balances of cash and cash equivalents | | |
| Bank balances and cash | **18,202,165** | 16,937,114 |
| Fixed deposits pledged to secure bank overdrafts | **–** | 1,778,845 |
| Bank overdrafts | **–** | (2,338,244) |
| | **18,202,165** | 16,377,715 |

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th September, 2002

## 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 "Interim Financial Reporting".

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and 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, 2002, except as described below.

In the current period, the Group has adopted, for the first time, a number of new and revised SSAPs issued by the Hong Kong Society of Accountants, which has resulted in the adoption of the following new and revised accounting policies. The adoption of these new and revised SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity but has had no material effect on the results for the current or prior periods.

### Foreign currencies

The revisions to SSAP 11 "Foreign Currency Translation" have eliminated the choice of translating the income statements of overseas subsidiaries at the closing rate for the period. They are now required to be translated at an average rate. Accordingly, on consolidation, the assets and liabilities of the Group's subsidiaries are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the subsidiaries are disposed of. This change in accounting policy has not had any material effect on the results for the current or prior periods.

## 2. PRINCIPAL ACCOUNTING POLICIES – Continued

### Cash flow statements

In the current period, the Group has adopted SSAP 15 (Revised) "Cash Flow Statements". Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest expenses and interest income, which were previously presented under a separate heading, are classified as financing cash flows and investing cash flows respectively. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. Cash flows of overseas subsidiaries have been re-translated at the rates prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date. The change in exchange rates used for translation of the cash flows of overseas subsidiaries has not had any material effect on the current or prior periods.

## 3. SEGMENT INFORMATION

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

For the six months ended 30th September, 2001, the Group was also involved in civil construction business. That operation was discontinued from 8th February, 2002.

Segment information about these businesses is presented below.

### Business segments

| | Six months ended 30th September, 2002 | | |
|---|---|---|---|
| | **Broadcasting HK$** | **Publishing HK$** | **Consolidated HK$** |
| Segment revenue | 73,204,884 | 22,915,519 | 96,120,403 |
| Segment results | (43,136,928) | 1,597,825 | (41,539,103) |
| Finance costs | | | (559,716) |
| Loss before taxation | | | (42,098,819) |
| Taxation | | | – |
| Loss before minority interests | | | (42,098,819) |
| Minority interests | | | (1,257,155) |
| Net loss for the period | | | (43,355,974) |

## 3. SEGMENT INFORMATION – Continued

### Business segments – Continued

| | Six months ended 30th September, 2001 | | | |
|---|---|---|---|---|
| | Broadcasting HK$ | Publishing HK$ | Civil construction HK$ | Consolidated HK$ |
| Segment revenue | 106,813,586 | 5,476,464 | 34,025,884 | 146,315,934 |
| Segment results | (36,254,221) | 142,538 | 417,970 | (35,693,713) |
| Finance costs | | | | (1,656,273) |
| Loss before taxation | | | | (37,349,986) |
| Taxation | | | | – |
| Loss before minority interests | | | | (37,349,986) |
| Minority interests | | | | (5,181) |
| Net loss for the period | | | | (37,355,167) |

## 4. LOSS FROM OPERATIONS

| | Six months ended 30.9.2002 HK$ | Six months ended 30.9.2001 HK$ |
|---|---|---|
| Loss from operations has been arrived at after charging (crediting): | | |
| Depreciation and amortisation of property, plant and equipment: | | |
| – owned assets | **8,820,811** | 9,458,886 |
| – assets held under finance leases | **21,961** | 68,820 |
| | **8,842,772** | 9,527,706 |
| Operating lease rentals in respect of: | | |
| – rented premises | **5,597,041** | 3,864,486 |
| – plant and equipment | **2,460,000** | 3,040,934 |
| | **8,057,041** | 6,905,420 |
| Less: Amount capitalised in construction contract costs | **–** | (50,400) |
| | **8,057,041** | 6,855,020 |
| Staff costs, including directors' remuneration | **31,658,316** | 37,848,494 |
| Loss on disposal of property, plant and equipment | **150,168** | 54,953 |
| Unrealised loss on investments in securities | **105,475** | 116,578 |
| Interest income | **(376,307)** | (1,699,204) |

## 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 deferred tax asset has not been recognised in the financial statements in respect of estimated tax losses available to offset future profits as it is not certain that it will be realised in the foreseeable future.

## 6. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the period of HK$43,355,974 (six months ended 30.9.2001: HK$37,355,167) and the weighted average number of 9,458,673,966 (six months ended 30.9.2001: 6,686,080,959) shares in issue during the period.

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

## 7. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30th September, 2002, property, plant and equipment with an aggregate net book value of approximately HK$18,685,000 were acquired as a result of the acquisition of subsidiaries.

The Group also spent approximately HK$6,204,000 on additions of property, plant and equipment.

## 8. GOODWILL

| | HK$ |
|---|---|
| GROSS AMOUNT | |
| At 1st April, 2002 | 122,503,753 |
| Additions | 95,436,853 |
| At 30th September, 2002 | 217,940,606 |
| AMORTISATION | |
| At 1st April, 2002 | 17,096,518 |
| Amortised for the period | 8,099,661 |
| At 30th September, 2002 | 25,196,179 |
| NET BOOK VALUES | |
| At 30th September, 2002 | 192,744,427 |
| At 31st March, 2002 | 105,407,235 |

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 90 to 180 days to its trade customers. The following is an aged analysis of trade debtors at the balance sheet date:

| | **30.9.2002** | 31.3.2002 |
|---|---|---|
| | **HK$** | HK$ |
| Current | **111,132,890** | 78,942,233 |
| 1 – 60 days overdue | **37,697,690** | 14,324,877 |
| 61 – 90 days overdue | **3,361,635** | 914,560 |
| Over 90 days overdue | **17,992,930** | 3,601,966 |
| Trade debtors | **170,185,145** | 97,783,636 |
| Prepayments and deposits | **64,590,213** | 21,355,740 |
| | **234,775,358** | 119,139,376 |
| Carrying amount analysed for reporting purposes as: | | |
| Current | **200,940,544** | 119,139,376 |
| Non-current | **33,834,814** | – |
| | **234,775,358** | 119,139,376 |

## 10. CREDITORS, DEPOSITS RECEIVED AND ACCRUED CHARGES

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

| | **30.9.2002** | 31.3.2002 |
|---|---|---|
| | **HK$** | HK$ |
| 0 – 60 days | **26,477,506** | 7,472,321 |
| 61 – 90 days | **2,427,723** | 3,412,886 |
| Over 90 days | **17,007,422** | 7,004,132 |
| Trade creditors | **45,912,651** | 17,889,339 |
| Other creditors, deposits received and accrued charges | **131,078,215** | 31,178,765 |
| | **176,990,866** | 49,068,104 |

## 11. BORROWINGS

During the period, shareholder's loan of HK$31,200,000 was fully repaid.

## 12. SHARE CAPITAL

Movements during the year/period in the share capital of the Company were as follows:

| | Number of shares | Amount HK$ |
|---|---|---|
| Ordinary shares of HK$0.02 each | | |
| Authorised: | | |
| At 1st April, 2001, 30th September, 2001, 31st March, 2002 and 30th September, 2002 | 33,000,000,000 | 660,000,000 |
| Issued and fully paid: | | |
| At 1st April, 2001 | 6,136,616,000 | 122,732,320 |
| Shares issued for acquisition of a subsidiary | 500,000,000 | 10,000,000 |
| Conversion of convertible bonds | 443,163,300 | 8,863,266 |
| Exercise of share options | 9,700,000 | 194,000 |
| Conversion of preference shares into ordinary shares | 340,000,000 | 6,800,000 |
| At 30th September, 2001 | 7,429,479,300 | 148,589,586 |
| Placement of shares | 1,673,000,000 | 33,460,000 |
| Conversion of convertible bonds | 201,126,400 | 4,022,528 |
| Balance at 31st March, 2002 | 9,303,605,700 | 186,072,114 |
| Conversion of convertible bonds *(note)* | 546,450,000 | 10,929,000 |
| Exercise of share options | 93,500,000 | 1,870,000 |
| At 30th September, 2002 | 9,943,555,700 | 198,871,114 |

*Note:* Pursuant to a 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 30th September, 2002, a principal amount of US$5,700,000 (equivalent to approximately HK$44,460,000) was converted into 546,450,000 new ordinary shares of HK$0.02 each in the Company.

On 27th August, 2002, Cosmos Media agreed to forfeit its rights to 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 new ordinary shares of HK$0.02 each 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. Up to 30th September, 2002, none of the Option had been exercised by Cosmos Media.

## 13. RESERVES

| | Share premium HK$ | Asset revaluation reserve HK$ | Translation reserve HK$ | Capital reserve HK$ | Accumulated losses HK$ | Total HK$ |
|---|---|---|---|---|---|---|
| At 1st April, 2001 | 226,746,323 | 3,133,548 | (135,835) | 3,490,000 | (177,253,242) | 55,980,794 |
| New issue of shares | 50,000,000 | – | – | – | – | 50,000,000 |
| Exercise of share options | 958,500 | – | – | – | – | 958,500 |
| Conversion of convertible bonds | 37,156,734 | – | – | – | – | 37,156,734 |
| Transfer | – | (55,886) | – | – | 55,886 | – |
| Exchange losses on translation of overseas subsidiaries | – | – | (32,290) | – | – | (32,290) |
| Net loss for the period | – | – | – | – | (37,355,167) | (37,355,167) |
| At 30th September, 2001 | 314,861,557 | 3,077,662 | (168,125) | 3,490,000 | (214,552,523) | 106,708,571 |
| New issue of shares, net of expenses | 130,736,824 | – | – | – | – | 130,736,824 |
| Conversion of convertible bonds | 12,357,472 | – | – | – | – | 12,357,472 |
| Reserves realised upon disposal of subsidiaries | – | (3,077,662) | – | – | 3,077,662 | – |
| Net loss for the period | – | – | – | – | (32,260,591) | (32,260,591) |
| At 31st March, 2002 | 457,955,853 | – | (168,125) | 3,490,000 | (243,735,452) | 217,542,276 |
| Conversion of convertible bonds | 33,531,000 | – | – | – | – | 33,531,000 |
| Exercise of share options | 5,411,500 | – | – | – | – | 5,411,500 |
| Net loss for the period | – | – | – | – | (43,355,974) | (43,355,974) |
| **At 30th September, 2002** | **496,898,353** | **–** | **(168,125)** | **3,490,000** | **(287,091,426)** | **213,128,802** |

## 14. ACQUISITION OF SUBSIDIARIES

During the six months ended 30th September, 2002, the Group acquired the entire issued share capital of Media Pioneer Limited and Profit Trade Developments Limited and 53.2% of the issued share capital of BCC (Entertainment) Company Limited at total considerations of HK$121,877,621. These transactions have been accounted for using the purchase method of accounting.

| | HK$ |
|---|---|
| Net assets acquired | 26,440,768 |
| Goodwill arising on acquisition | 95,436,853 |
| | 121,877,621 |
| Satisfied by: | |
| Cash consideration | 51,536,337 |
| Other creditors *(note)* | 70,341,284 |
| | 121,877,621 |
| Net cash outflow arising on acquisition | |
| Cash consideration | 51,536,337 |
| Bank balances and cash acquired | (1,551,346) |
| | 49,984,991 |

*Note:* Included in “Other creditors, deposits received and accrued charges” as disclosed in note 10 was HK$60,341,284 which will be settled by the issue of the Company’s shares.

## 15. PLEDGE OF ASSETS

At 30th September, 2002, leasehold land and buildings with an aggregate net book value of approximately HK$1.8 million (31.3.2002: HK$1.9 million), plant and machinery, and furniture and equipment with an aggregate net book value of approximately HK$19.5 million (31.3.2002: HK$21.7 million) and trade debtors of approximately HK$2.0 million (31.3.2002: Nil) were pledged to banks to secure certain banking facilities granted to the Group.

## 16. RELATED PARTY TRANSACTIONS

(a) During the six months ended 30th September, 2002, the Group received management fee income of HK$102,570 (six months ended 30.9.2001: Nil) from Sun Stone Media Group Limited, in which Ms. Yang Lan and Dr. Wu Zheng, Bruno, directors of the Company, have beneficial interests.

(b) During the six months ended 30th September, 2002, the Group purchased property, plant and equipment of HK$135,830 (six months ended 30.9.2001: Nil) 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.

## 16. RELATED PARTY TRANSACTIONS – Continued

(c) During the six months ended 30th September, 2002, the Group received licensing income of HK$2,696,629 (six months ended 30.9.2001: Nil) from 佳訊錄影視聽有限公司, in which Mr. Lien Tai Sneug, a director of a subsidiary of the Company, has a beneficial interest.

(d) During the six months ended 30th September, 2002, the Group paid satellite fee of HK$481,541 (six months ended 30.9.2001: Nil) to 卜樂視科技股份有限公司, in which Mr. Lien Tai Sneug, a director of a subsidiary of the Company, has a beneficial interest.

(e) At 30th September, 2002, amount of HK$2,428,016 (31.3.2002: Nil) was due to a minority shareholder of a subsidiary. The amount is unsecured, non-interest bearing and repayable on demand.

(f) During the year ended 31st March, 2001, the Group borrowed a shareholder's loan of HK$31,200,000 from SINA.com, in which Ms. Yang Lan and Dr. Wu Zheng, Bruno have beneficial interests. The loan was fully repaid during the current period.

## 17. POST BALANCE SHEET EVENTS

(a) Pursuant to an agreement dated 11th September, 2002 entered into among the Company, Macau Media Holdings ("Macau Media") and Century Capital Group Limited which is the controlling shareholder of Macau Media, the Company agreed to dispose to Macau Media of its 51% equity interest in the share capital of TV Viagens (Macau) S.A.R.L. ("TV Viagens"), together with the debts owing by TV Viagens to the Company in an amount of HK$19,450,000, for a consideration of approximately US$11,487,000 (equivalent to approximately HK$89,600,000) which will be satisfied by the issue and allotment of 4,302,188 new ordinary shares of Macau Media at US$2.67 (equivalent to approximately HK$20.83) per share. The transaction was completed on 11th October, 2002.

(b) Pursuant to a subscription agreement dated 13th September, 2002 entered into between the Company and Excel Asia Profits Limited ("Excel Asia") in which Ms. Yang Lan and Mr. Xu Zhongmin, directors of the Company, have 80% and 20% beneficial interests respectively, Excel Asia shall subscribe for 300,000,000 new ordinary shares of HK$0.02 each in the Company at a price of HK$0.10 per share. The price of HK$0.10 per share represented a premium of approximately 42.86% to the closing price per share of HK$0.07 as quoted on the Stock Exchange on 13th September, 2002 and a premium of approximately 42.86% to the average closing price of the shares for the last ten trading days of HK$0.07 per share. The net proceeds of the subscription was intended to be used as general working capital for the Group. The subscription was approved by the independent shareholders at a special general meeting held on 29th October, 2002.

## 17. POST BALANCE SHEET EVENTS – Continued

(c) On 16th October, 2002, an agreement was made for a placing and subscription of 940,000,000 new ordinary shares of HK$0.02 each in the Company at a price of HK$0.06 per share, which represented a premium of approximately 3.45% to the closing price per share of HK$0.058 as quoted on the Stock Exchange on 11th October, 2002 and a discount of approximately 0.33% over the average closing price of the shares for the last ten trading days of HK$0.0602 per share. The net proceeds of the placing was intended to be used for possible acquisitions of audio and video distribution business and leading advertising enterprises in the Greater China Region and for general working capital for the Group.

(d) Pursuant to an agreement dated 21st October, 2002 entered into between the Company and Asia Premium Television Group, Inc. ("Asia Premium") which is a company incorporated in the State of Nevada of the United States of America and its common stock are being traded on a stock exchange system in the United States of America and Mr. William A Fisher who is the substantial shareholder of Asia Premium, the Company shall subscribe for 300,000,000 new shares of US$0.001 each in the capital of Asia Premium, at a purchase price of US$0.062 (equivalent to HK$0.484) per share, which will be satisfied by way of transferring the entire issued share capital of Capital Channel Limited and Sun Television Cybernetworks Trading Limited which were the wholly owned subsidiaries of the Company. The transaction was completed on 22nd October, 2002.

(e) Pursuant to a conditional sale and purchase agreement dated 17th November, 2002 entered into between the Company, Mr. Zhu Xi He and Ms. Yang Ping, the Company shall acquire from Mr. Zhu Xi He and Ms. Yang Ping the entire issued share capital of 天津市海津音像發行有限公司 (Tianjin City Hai Jin Audio-Video Distribution Company Limited), a company established in the PRC, at a total consideration of RMB19,200,000 (equivalent to approximately HK$17,944,000) which will be satisfied by the issue and allotment of 138,030,000 new ordinary shares of the Company at HK$0.065 per share, and as to the balance, in cash. The transaction has not yet been completed up to the date of this report.

(f) Pursuant to a conditional sale and purchase agreement dated 18th November, 2002 entered into between the Company and Mr. Lu Hsin Hwa, the Company shall acquire from Mr. Lu Hsin Hwa the entire issued share capital of Top Action International Development Company Limited, a company incorporated in the British Virgin Islands, at a consideration of HK$30,000,000 which will be satisfied by the issue and allotment of 285,714,286 new ordinary shares of the Company at HK$0.07 per share, and as to the balance, in cash. The transaction has not been completed up to the date of this report.

# BUSINESS REVIEW & PROSPECTS

## PERFORMANCE COMPARISON

The first half of FY2002/03 was a challenging period for Sun Media Group. Globally, numerous economic uncertainties inevitably hindered the economic growth in most of the world. The ambiguous direction of adjustments in the PRC's policies for overseas satellite TV led to severe downturn in the satellite TV advertising market. Confronted with this difficult market situation, our Group was committed to reviewing our strategies and rationalizing our operations. Our focus was to strike a careful balance between boosting revenues to maintain growth and streamlining structures to minimize expenses.

For the six months ended 30th September, 2002, Sun Media Group's total turnover was approximately HK$96.1 million, a drop of 14.43% as compared with turnover from the media-related business recorded for the same period last year (30.9.2001: HK$112.3 million). However, backed by a syndication network with an audience size of more than 100 million TV households in the PRC, the Group's programme distribution business grew rapidly with turnover doubled to approximately HK$46.6 million, accounting for 48.49% of the Group's total turnover (30.9.2001: HK$23.4 million). During the period, the Group has also been aggressively developing the publishing and audio-visual products business, successfully expanding the turnover generated from publishing business to reach approximately HK$22.9 million and accounting for 23.83% of the total turnover.

Since the market situation was really unfavorable and the Group's publishing business has not yet been fully developed during the period, as a result, the Group recorded a loss attributable to shareholders of approximately HK$43.4 million. Loss per ordinary share was HK0.46 cents (30.9.2001: HK0.56 cents).

Though the Group successfully acquired Jingwen Entertainment Group ("Jingwen") and Jet TV to diversify our revenue base in the reviewing period, these businesses have been consolidated into the Group's results just for three months. As the restructuring also takes time to achieve satisfactory levels of cost control and business performance, the effect cannot be fully reflected in this interim result while they will have better performances in the second half of this financial year.

## BUSINESS REVIEW

### Broadcasting Business

*Sun Satellite TV*

As one of the core operations of the Group's broadcasting business, Sun Satellite TV has successfully achieved a strong foothold with a prominent brand name, sizeable audience coverage of more than 35 million households as well as social acclaim in the Greater China region with its two complete years of operation.

Despite these remarkable achievements, Sun Satellite TV, as well as other overseas satellite TV corporations, had to face a significantly altered operating environment during the reporting period. Since the adjustments in the PRC's policies have led to advertiser preference for state-owned national TV stations rather than local TV stations and overseas satellite TV stations, such TV stations faced increasingly unfavorable conditions in the TV advertising market. Though we have developed a solid foundation with many renowned customers, advertising revenue from Sun Satellite TV inevitably decreased to approximately HK$13.2 million, accounting for 13.74% of the Group's total turnover.

Notwithstanding the uncertain market environment, as a dominant player in providing top quality programmes in the region, Sun Media Group continued to enjoy leading reputation in the media industry with various flagship programmes including "Yang Lan One on One", "People on Line", "The Truth" and "Biography". Riding on these proven successes, the Group launched new programme series, such as "The Yellow River", "West's Sun" and "Immortal Marriage II", further enhancing the programme variety and the competitiveness of Sun Satellite TV, proactively broadening its customer base and strengthening its advertising sales.

Backed by the excellent programme library, Sun Media Group has built up "branded blocks" on over 100 local channels in the PRC, forming a syndication network with an audience size of more than 100 million TV households.

In line with the Group's transformation strategy, the operational restructuring plan, which included relocating the programme production base and the operational center of Sun Satellite TV to the PRC, has been completed in October and has led to better-controlled operational costs for the Group. The Group believes that centralizing production base in the PRC is one of the essential keys to transforming Sun Media Group into a leading multi-media corporation, while also being imperative for its long-term development.

*Jet TV*

Pursuing our vision to be "one of the largest premier Chinese content providers in the world", in April 2002, we extended our presence and influence in Taiwan, Singapore, Australia and North America through the acquisition of 60% interests in Jet TV with its guaranteed profit of NT$20 million for the following financial year. From July 2002 onwards, Jet TV began delivering Sun Media's impressive entertainment and thematic programmes to the United States via AT&T's broadband cable television network. This move created a major leap forward in our mission of bringing outstanding Chinese programmes to Chinese all over the world.

As the Group undertook active acquisition plans to boost revenue through various business operations, during the reporting period, Jet TV became one of the revenue streams for the Group with turnover of approximately HK$13.1 million for 3 months.

*Macau Satellite TV Travel Channel*

In view of the rapid change in the market environment for satellite television in the PRC, the Group concluded a win-win transaction in September by strategically exchanging our 51% stake in Macau Satellite Television Travel Channel valued at HK$89.7 million, for a 6.5% stake in Macau Media Holdings, formerly known as Five Star Satellite TV Holdings Ltd.

In addition, Sun Media Group gained a 3-year programme sales contract with a value of HK$21 million from Macau Media Holdings. Meanwhile, Macau Media Holdings promised Sun Media Group a guaranteed cash compensation of the shortfall if the value of the 6.5% stake is less than HK$30 million after gaining a listing status which is expected no later than 1st July, 2004.

As a result of this transaction, the Group is able to reduce TV related expenses substantially, thus ensuring returns on investment. Moreover, this transaction has not only provided the Group with a stable customer making ongoing cash payments, but has also created a new distribution channel for Sun Media's TV programmes.

## Publishing Business

*Jingwen*

Recognizing that it would be impossible to achieve desirable scales and sustainable profit growth by solely relying on the television business in the PRC, and in a bid to increase the proportion of revenues from fee-based business, Sun Media Group acquired the entire interests in Jingwen, a market leader in the PRC's audio and visual distribution industry, in April with a guaranteed profit of RMB17 million for the first full year. This strategic move successfully transformed Sun Media Group from a single TV media operator to a major multi-media organization with high growth potential in the industry.

Jingwen and its associates have developed a comprehensive sales network in the PRC market, providing the Group a new revenue stream generated from multi-media products distribution. It also provides a long-term distribution channel for the Group's programmes and related products, further expanding our operation scale and market share in the industry.

Upon completion of this acquisition in July 2002, Jingwen was set to become a core operation and key driver for business and profit growth for "Sun Publishing". During the period under review, Jingwen made a significant contribution to sales of approximately HK$17.5 million, accounting for 18.21% of the Group's turnover.

## Strategic Alliances

Aiming to become a multi-media group, Sun Media Group viewed acquisitions and strategic alliances as essential and effective tools to significantly broaden its business scope and operational scale. During the reporting period, the Group successfully completed several significant strategic alliances with a number of valuable partners, creating additional synergies among its various businesses.

*People's Education Publishing House*

To capture the vast opportunities in educational area in the PRC, Jingwen joined hands with the People's Education Publishing House in a partnership to actively explore the fundamental educational market by developing educational materials published and owned by Jingwen, as well as publicizing and distributing a series of educational products.

Capitalizing on the People's Education Publishing House's abundant resources and publication experience in the educational area in the PRC, this alliance has certainly strengthened Sun Media Group's ability to enhance its educational role in the multi-media industry.

*Bertelsmann Book Club*

Adding to the Group's competence in delivering quality media products to audiences in the PRC, Jingwen formed a strategic alliance with Bertelsmann Book Club in July 2002. Bertelsmann Book Club is a subsidiary of Bertelsmann AG ("Bertelsmann"), a world renowned media giant from Germany focusing on publication logistics and media product distribution. It is currently consisting of 1.5 million members in the PRC, 6 club centers in Shanghai and cash-on-delivery payment services in 7 major cities in China.

Having established its comprehensive strategic partnership with Bertelsmann Book Club, Sun Media Group confidently expects to strengthen distribution capabilities, effectively marketing our multi-media products.

*Legend (Beijing) Holdings Limited*

In view of the huge demand for music and IT products in this increasing affluent market, Jingwen and Legend (Beijing) Holdings Limited ("Legend"), the PRC's largest IT corporation, formed a cross-industry alliance in July 2002, raising an "Audio-visual New Life" storm on the markets of audio-visual publication and IT software and hardware, allowing customers to enjoy more professional services through their widespread coverage in the PRC.

Leveraging Legend's advantageous position in product distribution and quality services as well as its own resources, Jingwen targets to bring its audio-visual products into Legend 1+1 chain stores, at a rate of 10 stores per month, aiming to cover every corner of Beijing. This move not only breaks through the traditional model of single sales channels for audio-visual products, but also becomes the first of its kind "Audio-visual store-in-store" operations, laying another milestone for Sun Media Group in developing its nation-wide distribution network.

*Qingdao Aucma Communication Information Network Co. Ltd.*

As the Group places every priority on exploring various sources of revenue, we entered into a term sheet with Qingdao Aucma in July 2002 to establish a joint venture for the provision of a range of fee-based quality information services through a wireless information network.

The success of this joint venture will help Sun Media Group diversifying into the provision of value-added services for data transmission and broadband networks, the exclusive distribution of personal digital assistants ("PDAs"), as well as content provision services and customer management. The Group believes that the development of fee-based information services in the PRC will further consolidate our image as a multi-media corporation. More importantly, these activities will enlarge the Group's business scope and revenue base.

Notwithstanding several successful strategic alliances, the Group had initial plans to form a scalable joint venture with an international media group; unfortunately the deal was failed due to an unexpected change of personnel within this media group at the final stage. The Group's original cost control measure and television programme adjustment were thus being affected by the operating direction concluded by both parties from the negotiation between April and August 2002. As a result, the Group has been unable to carry out original adjustment plans to improve the performance of its television operations. Meanwhile, the Group took immediate actions to adjust television programme strategy and to trim down our operation costs substantially in September and October 2002.

## Earnings Before Interest, Taxes, Depreciation and Amortisation ("EBITDA")

EBITDA amounted to loss of HK$24.6 million for the six months ended 30th September, 2002 (30.9.2001: HK$23.1 million). Amortisation of goodwill arising from acquisition of subsidiaries and depreciation charge for the period was approximately HK$8.1 million (30.9.2001: HK$3.1 million) and approximately HK$8.8 million (30.9.2001: HK$9.5 million) respectively.

## Employees and Remuneration policies

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

A summary of the outstanding share options at 30th September, 2002 is as follows:

| Date of share options granted | Exercise Price | No. of outstanding |
|---|---|---|
| 27.4.2000 | $0.1760 | 100,700,000 |
| 13.6.2000 | $0.2310 | 3,000,000 |
| 17.7.2000 | $0.2200 | 9,000,000 |
| 21.7.2000 | $0.2410 | 8,400,000 |
| 5.9.2000 | $0.2410 | 34,800,000 |
| 14.11.2000 | $0.1860 | 2,400,000 |
| 8.12.2000 | $0.1830 | 6,000,000 |
| 27.12.2000 | $0.1510 | 3,000,000 |
| 31.1.2001 | $0.1520 | 220,960,000 |
| 2.2.2001 | $0.1510 | 1,500,000 |
| 6.3.2001 | $0.1760 | 100,000 |
| 23.4.2001 | $0.0968 | 17,000,000 |
| 14.6.2001 | $0.1290 | 2,000,000 |
| 4.1.2002 | $0.1090 | 130,320,000 |
| 7.1.2002 | $0.1140 | 15,000,000 |
| 25.3.2002 | $0.1520 | 64,000,000 |
| 25.3.2002 | $0.1760 | 1,450,000 |
| 8.8.2002 | $0.0720 | 42,000,000 |
| 16.9.2002 | $0.0710 | 109,000,000 |
| **Total** | | **770,630,000** |

## Liquidity and financial resources

At 30th September, 2002, the Group's current ratio was 1.2, with current assets of approximately HK$243.3 million against current liabilities of approximately HK$200.4 million. Cash and cash equivalents was approximately HK$18.2 million. The Group's gearing ratio was 0.01. The gearing ratio is calculated based on the Group's total non-current liabilities and shareholders' fund of approximately HK$4.1 million and HK$412.0 million respectively.

Outstanding convertible bonds at 30th September, 2002 amounted to approximately HK$2.3 million. At 30th September, 2002, the bank borrowings were approximately HK$17.8 million. The general banking facilities are secured by fixed assets with net book value of HK$21.3 million and by debtors of HK$2.0 million.

There has been no material changes in contingent liabilities of the Group and in risk of fluctuation in exchange rates since the Annual Report 2002.

## PROSPECTS

In view of the unexpected changes in the television broadcasting industry and the advertising market in the PRC, the Group substantially adjusted its business strategy and efficiently implemented business transformation during the period under review. After unrelenting efforts, Sun Media Group completed the business restructuring exercise in October 2002, successfully transforming itself from a single TV media operator into a genuine multi-media corporation.

The Group has broadened both business scope and operational scale through the acquisitions of Jingwen and Jet TV, establishing strong foundations for our development as a fee-based multi-media corporation. This has not only altered the original business model with advertising revenue as the sole income source, but also strengthened the Group's leading position in the market. Based on current operation scales, the Group expects advertising, programme distribution and publishing business to be of similar importance to its turnover in the second half of the financial year, providing solid foundations for the achievement of stable income and continued business growth.

### Broadcasting Business

Riding on the success of the quality thematic documentary programmes, Sun Satellite TV will strengthen its programme line-up by bringing in quality educational and entertainment programmes from all around the world through the format of programme cooperation and profit sharing. In addition, the Group will increase its investment in self-produced programmes, our flagship programmes and thematic documentaries will be further strengthened. With the Group's commitment in quality, re-run programme ratio will be reduced while programme variety will be broadened.

The Group is confident that the programme enrichment will further broaden Sun Satellite TV's audience and potential advertising customer base, ultimately bring in more advertising and programme distribution revenues in the coming year. Additionally, the Group will be allied with several advertising agencies and major customers to offer more value-added marketing services instead of establishing an extensive advertising sales network. This will enable the Group to lower the cost of operation, and also sharpen our sales efficiencies, ensuring a stable and sustainable source of income.

Since the move of Sun Satellite TV's operational centre to the PRC, production and operation costs in Hong Kong have been trimmed down substantially. Coupled with the significant adjustments in Sun Satellite TV's programming and operational cost model commencing November 2002, Sun Satellite TV's total costs will fall by more than 35%. Additionally, having sold the Group's holding in Macau Satellite TV Travel Channel in exchange for a stake in Macau Media Holdings, our TV related expenses will be drastically reduced by 60% from over HK$100 million a year to approximately HK$40 million a year. This will provide us with a positive basis to achieve operational break-even and ultimately profit.

## Publishing Business

The acquisition of Jingwen signals Sun Media Group's success in its transformation from a single TV media into a multi-media group in the industry. This expands the Group's income sources from TV advertising revenues into a combination of advertising, publications and audio-visual products, sustaining its long-term growth.

Leveraging Jingwen's extensive distribution channels for multi-media products and solid experience in the audio-visual distribution industry, the Group will continue to actively expand the publication and distribution businesses, enabling more readers to access Chinese culture in different formats. The Group plans to establish an extensive retail sales network spanning the whole nation. As Jingwen has a nation-wide audio-visual retail license, negotiation for the acquisition of an audio-visual chain store retail network with more than 2,000 outlets is currently underway. The Group aims at building up a national retail and wholesale network of over 4,000 outlets in the coming 3 years. The Group strongly believes that a well-established sales channel will lay solid foundations for the further development of the Group's publishing and distribution businesses, forming a long-term stable positive cash flow.

In addition, the strategic partnerships with Bertelsmann and Legend are accelerating the development of Sun Media Group's outstanding multi-channel distribution business. A retail bookstore jointly established by Bertelsmann and Sun Media Group will be opened in January 2003 in Xidan, Beijing. At the same time, the Group will also establish "Audio-visual store-in-store" in Legend's 1+1 chain stores, opening up a new sales channel for our audio-visual products. Our presence in these shops is expected to increase to 600 by the end of this year, marking another major milestone in the establishment of an extensive multi-channel distribution network. The Group has every confidence to achieve turnover accounting for over 50% of the Group's total turnover in the first full operation year of the audio-visual chain store network.

Apart from establishing an extensive distribution network, the Group was committed to diversifying its product range. Invaluable TV programme contents are transformed into different audio-visual products, such as "TV Books" and "Audio Books", to meet the needs of customers with busy lives. These brand new products together with Sun TV VCD/DVD & History Channel VCD/DVD will be distributed through the audio-visual chain stores. The Group believes that the positive contribution of these newly developed businesses will be reflected in the second half of the year.

### Acquisitions & Strategic Alliances

The Group made a strategic investment in Asia Premium Television Group, Inc. ("Asia Premium") to maximize returns for shareholders. In October 2002, the Group concluded an agreement with Asia Premium, a Nasdaq OTCBB listed company. Under this agreement, the Group transferred its entire issued shares owned in Capital Channel and Sun Television Cybernetworks Trading Limited in exchange for a 36.9% shareholding in Asia Premium. Asia Premium operates a well-established fee-based TV content provision business in East and Southeast Asia. The Group is confident that it will obtain considerable return from this strategic investment.

To further strengthen Jingwen and Jet TV's businesses and to broaden the Group's distribution networks and strongly enhance its market positions for audio-visual products in the PRC and Taiwan, the Group acquired a 100% stake in two profit-making corporations, 天津市海津音像發行有限公司 (Tianjin City Hai Jin Audio-Video Distribution Company Limited) and Hanyin International at the cost of RMB19.2 million and HK$30 million respectively.

## CONCLUSION

Despite the difficulties that the media industry is currently facing, we have been able to carry out our business restructuring, transforming ourselves into a genuine multi-media corporation with strengthened competitiveness. The management has full confidence of achieving net profit in this financial year, operating profit in the second half of this financial year and positive operation cash flow in the last quarter. The Group is very optimistic that we will be among the first to hit a new height once the macro economic environment changes.

## DIRECTORS' RIGHT TO ACQUIRE SHARES

Pursuant to the Company's share option scheme, details of options granted to the directors are as follows:

| Directors | Number of option outstanding at 30th September, 2002 | Exercisable Price (HK$) | Exercise period of share options |
|---|---|---|---|
| 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 |
| Duan Yongji | 40,000,000 | 0.109 | 4.1.2002 – 3.1.2012 |
| | 10,000,000 | 0.071 | 16.9.2002 – 15.9.2012 |
| 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 |
| 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 |
| Chen Xiaotao | 15,000,000 | 0.114 | 7.1.2002 – 6.1.2012 |
| | 10,000,000 | 0.071 | 16.9.2002 – 15.9.2012 |
| Li John Zongyang | 10,000,000 | 0.071 | 16.9.2002 – 15.9.2012 |
| Xu Zhongmin | 30,000,000 | 0.071 | 16.9.2002 – 15.9.2012 |

The exercise price is adjustable in accordance with the provisions of the share option scheme.

Save as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors or their associates to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

# DIRECTORS' INTERESTS IN SECURITIES

As at 30th September, 2002, the interests of the Directors and chief executives of the Company in the equity and debt securities of the Company and its associated corporations (within the meaning of the SDI Ordinance) which require notification to the Company and its associated corporation (within the meaning of the SDI Ordinance) or which require notification to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which any such Director is deemed or taken to have under Section 31 or Part I of the Schedule to the SDI Ordinance) or which are required to be entered into the register maintained by the Company under Section 29 of the SDI Ordinance or which are required, pursuant to the Model Code of Securities Transaction by Directors of Listed Companies, to be notified to the Company and the Stock Exchange were as follows:–

| **Directors** | **Nature of interests** | **Number of Shares** |
|---|---|---|
| Yang Lan | Personal and Family and Corporate | 455,940,000 *(Note 1)* |
| Wu Zheng, Bruno | Personal and Family | 455,940,000 *(Note 1)* |
| Li John Zongyang | Personal | 20,000,000 |
| Xu Zhongmin | Personal and Corporate | 300,825,688 *(Note 2)* |

*Notes:*

1. 125,940,000 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 and as to 20% by Mr. Xu Zhongmin.

   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 455,940,000 Shares.

2. 240,825,688 Shares are held by Mr. Xu Zhongmin. Mr. Xu Zhongmin is also deemed to be interested in 60,000,000 Shares held by Excel Asia Profits Limited.

## SUBSTANTIAL SHAREHOLDERS

At 30th September, 2002, SINA.com held 2,028,122,000 shares in the Company representing 20.40% of the issued share capital of the Company, which were recorded in the register of interests as required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

Save as disclosed herein, the directors of the Company are not aware of any shareholders who had interests of 10% or more of the issued share capital of the Company as at 30th September, 2002.

## 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, 2002.

## 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, 2002, 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, 29th November, 2002