



陽光體育媒體集團有限公司
SUN SPORTS MEDIA GROUP LIMITED

INTERIM REPORT 2004 中期報告

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2004

	Notes	30 September	
		2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Turnover	3	45,553	144,310
Cost of sales		<u>(46,614)</u>	<u>(116,287)</u>
Gross (loss)/profit		(1,061)	28,023
Other operating income		341	2,884
Administrative expenses		(30,883)	(65,502)
Amortisation of goodwill		(2,574)	(3,796)
Provision for bad and doubtful debts		(2,289)	—
(Loss)/gain on disposal of subsidiaries		(4,412)	2,821
Impairment loss on property, plant and equipment		(2,814)	—
Gain on deemed disposal of a subsidiary		—	13,546
Impairment loss reversed in respect of prepaid airtime		<u>—</u>	<u>6,000</u>
Loss from operations	4	(43,692)	(16,024)
Finance costs		(68)	(1,095)
Share of results of associates		104	(4,019)
Loss before taxation		(43,656)	(21,138)
Taxation	5	<u>—</u>	<u>—</u>
Loss before minority interests		(43,656)	(21,138)
Minority interests		(1,054)	13,498
Net loss for the period		<u>(44,710)</u>	<u>(7,640)</u>
Loss per share — basic and diluted	6	<u>HK(0.31) cent</u>	<u>HK(0.06) cent</u>

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 September 2004

	Notes	30.9.2004 HK\$'000 (unaudited)	31.3.2004 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	7	8,032	27,311
Goodwill	8	26,331	37,914
Investments in associates		7,567	50
Purchased programme rights		3,624	16,658
Interests in securities		44,836	47,061
		90,390	128,994
Current assets			
Self-produced programmes		27,079	26,242
Inventories		4,679	6,001
Debtors, prepayments and deposits	9	34,889	39,471
Amounts due from associates		1,493	821
Investments in securities		37,066	6,501
Bank balances and cash		8,167	12,730
		113,373	91,766
Current liabilities			
Creditors, deposits received and accrued charges	10	65,348	75,337
Borrowings — due within one year		935	7,285
Amounts due to a formerly director		5,465	935
Obligations under finance leases — due within one year		35	67
Taxation payable		187	182
		71,970	83,806
Net current assets		41,403	7,960
Total assets less current liabilities		131,793	136,954
Non-current liabilities			
Obligations under finance leases — due after one year		—	1
Borrowings — due after one year		1,560	2,495
		1,560	2,496
Minority interests		1,829	9,596
		128,404	124,862
Capital and reserves			
Share capital	11	162,842	138,542
Reserves	12	(34,438)	(13,680)
		128,404	124,862

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2004

	Total equity <i>HK\$'000</i>
At 1 April 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)
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At 30 September 2003	378,074
Shares issued for acquisition of a subsidiary	2,710
Reserve released upon disposal of subsidiaries	9
Net loss for the period	(223,406)
Distribution	(32,525)
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At 31 March 2004	124,862
Shares issued for acquisition of a subsidiary	36,400
Placement of shares, net of expenses	11,852
Net loss for the period	(44,710)
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At 30 September 2004	<u><u>128,404</u></u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30 September 2004*

	Six months ended	
	30.9.2004	30.9.2003
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash used in operating activities	(28,138)	(70,456)
Net cash (used in)/from investing activities	(24,073)	26,679
Net cash from financing	47,648	12,765
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(4,563)	(31,012)
Cash and cash equivalents at beginning of period	12,730	64,829
Effect of foreign exchange rate changes	—	92
	<hr/>	<hr/>
Cash and cash equivalents at end of period	8,167	33,909
	<hr/> <hr/>	<hr/> <hr/>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	8,167	33,909
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NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For The Six Months Ended 30 September 2004

1. Basis of Preparation

The condensed consolidated financial statements have been prepared in accordance with the Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and 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.

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 in preparation of these condensed consolidated financial statements are consistent with those used in the Group's latest annual financial statements for the year ended 31 March 2004.

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 30 September 2004		
	Broadcasting HK\$'000	Publishing HK\$'000	Consolidated HK\$'000
Segment revenue	<u>31,540</u>	<u>14,013</u>	<u>45,553</u>
Segment result	(36,831)	(2,449)	(39,280)
Loss on disposal of subsidiaries	<u>(4,412)</u>	<u>—</u>	<u>(4,412)</u>
	<u>(41,243)</u>	<u>(2,449)</u>	<u>(43,692)</u>
Finance costs			(68)
Share of results of associates			<u>104</u>
Loss before taxation			(43,656)
Taxation			<u>—</u>
Loss before minority interests			(43,656)
Minority interests			<u>(1,054)</u>
Net loss for the period			<u>(44,710)</u>

3. Segment Information (Continued)

(a) Business segments (Continued)

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

(b) Geographical segments

	Turnover	
	Six months ended 30 September	
	2004 HK\$'000	2003 HK\$'000
By geographical market :		
Hong Kong	48	59,584
Mainland China ("PRC")	14,928	63,125
Taiwan	<u>30,577</u>	<u>21,601</u>
	<u>45,553</u>	<u>144,310</u>

4. Loss from Operations

	30 September	
	2004	2003
	HK\$'000	HK\$'000
Loss from operations has been arrived at after charging/(crediting):		
Depreciation and amortisation of property, plant and equipment:		
— owned assets	2,563	6,146
— assets held under finance leases	14	8,395
	2,577	14,541
Operating lease rentals in respect of:		
— rented premises	1,563	3,815
— plant and equipment	—	11
	1,563	3,826
Staff costs, including directors' remuneration	11,143	63,078
Loss on disposal of property, plant and equipment	1,556	2,042
Unrealised loss/(gain) on investments in securities	389	(222)
Interest income	(11)	(221)

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\$44,710,000 (2003: HK\$7,640,000) and the weighted average number of 14,600,205,608 shares in issue (2003: 13,760,791,380 shares) during the period.

The computation of diluted loss per share does not assume the exercise of the 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\$0.7 million on additions of property, plant and equipment.

8. Goodwill

	<i>HK\$'000</i>
GROSS AMOUNT	
At 1 April 2004	87,909
Disposal of a subsidiary	<u>(34,873)</u>
At 30 September 2004	<u>53,036</u>
ACCUMULATED AMORTISATION AND IMPAIRMENT	
At 1 April 2004	49,995
Amortised for the period	2,574
Reversals on disposal of a subsidiary	<u>(25,864)</u>
At 30 September 2004	<u>26,705</u>
NET BOOK VALUES	
At 30 September 2004	<u>26,331</u>
At 31 March 2004	<u>37,914</u>

Goodwill is amortised using the straight line method over its estimated useful life, which ranges from 3 to 10 years, and provision for impairment will be made as warranted upon the regular assessment by Directors.

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:

	30.9.2004	31.3.2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	699	11,984
1 — 60 days overdue	393	44
61 — 90 days overdue	—	1,161
Over 90 days overdue	<u>1,151</u>	<u>555</u>
Trade debtors	2,243	13,744
Prepayments and deposits	<u>32,646</u>	<u>25,727</u>
	<u>34,889</u>	<u>39,471</u>

10. Creditors, Deposits Received and Accrued Charges

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

	30.9.2004	31.3.2004
	HK\$'000	HK\$'000
0 — 60 days	144	2,925
61 — 90 days	1,233	390
Over 90 days	<u>2,244</u>	<u>1,190</u>
Trade creditors	3,621	4,505
Other creditors, deposits received and accrued charges	<u>61,727</u>	<u>70,832</u>
	<u>65,348</u>	<u>75,337</u>

11. Share Capital

	Number of shares	Amount
	'000	HK\$'000
Ordinary shares		
Authorised:		
At 1 April 2003 and 30 September 2003, shares of HK\$0.02 each	33,000,000	660,000
Share Subdivision (<i>Note 1</i>)	<u>33,000,000</u>	<u>—</u>
At 31 March 2004 and 30 September 2004 shares of HK\$0.01 each	<u>66,000,000</u>	<u>660,000</u>
Issued and fully paid:		
At 1 April 2003 and 30 September 2003	13,760,792	275,216
Capital reduction	—	(137,608)
Shares issued for acquisition of a subsidiary	<u>93,458</u>	<u>934</u>
At 31 March 2004	13,854,250	138,542
Shares issued for acquisition of an entity (<i>Note 2</i>)	1,400,000	14,000
Placement of shares	<u>1,030,000</u>	<u>10,300</u>
At 30 September 2004	<u>16,284,250</u>	<u>162,842</u>

11. Share Capital (Continued)

Notes:

- Upon the capital reorganisation of the Company in December 2003, every authorised ordinary share (“Share(s)”) of HK\$0.02 each in the capital of the Company was subdivided into two new Shares of HK\$0.01 each. As a result, the Company had authorised share capital of HK\$660,000,000 divided into 66,000,000,000 Shares of HK\$0.01 each.
- 1,400,000,000 Shares have been allotted to Mr. Li Hon Sang (“Mr. Li”) at HK\$0.03 each on 7 July 2004 pursuant to a conditional sale and purchase agreement dated 21 May 2004 entered into between the Company and Mr. Li for the acquisition of the entire equity interests in China Sports Media Limited. Details of which have been set out in a circular of the Company dated 25 June 2004.

12. Reserves

	Share premium HK\$'000	Contributed Surplus HK\$'000	Translation reserve HK\$'000	Capital reserve HK\$'000	Other reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 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 30 September 2003	675,784	—	(177)	3,490	40,000	(616,239)	102,858
Capital reorganization	(675,784)	207,392	—	—	—	606,000	137,608
Shares issued for acquisition of a subsidiary	1,776	—	—	—	—	—	1,776
Reserve released upon disposal of subsidiaries	—	—	9	—	—	—	9
Net loss for the period	—	—	—	—	—	(223,406)	(223,406)
Distribution	—	(32,525)	—	—	—	—	(32,525)
At 31 March 2004	1,776	174,867	(168)	3,490	40,000	(233,645)	(13,680)
Shares issued for acquisition of an entity	22,400	—	—	—	—	—	22,400
Placement of shares, net of expenses	1,552	—	—	—	—	—	1,552
Net loss for the period	—	—	—	—	—	(44,710)	(44,710)
At 30 September 2004	<u>25,728</u>	<u>174,867</u>	<u>(168)</u>	<u>3,490</u>	<u>40,000</u>	<u>(278,355)</u>	<u>(34,438)</u>

12. Reserves (Continued)

The capital reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to a group reorganisation in November 1992 and the nominal value of the Company's shares issued in exchange therefor.

The other reserve of the Group and of the Company represents the loan assigned by certain creditors which will be satisfied by the issue and allotment of 400,000,000 new Shares of HK\$0.01 each subject to adjustment as stipulated under the Agreements (as defined below) at the expiry of 24 months after completion of a sale and purchase agreement relating to Sing Pao Media Group Limited dated 23 November 2002 and a deed of loan assignment (collectively the "Agreements") dated 24 January 2003 entered into between, among others, the Company and the said respective creditors.

In the opinion of the directors of the Company, the Company has no reserves available for distribution to its shareholders at the balance sheet date except, pursuant to the Companies Act 1981 of Bermuda, the Company's share premium account of HK\$25,728,000 at 30 September 2004 (2003: HK\$675,784,000) can be distributed in the form of fully paid bonus shares.

13. Disposal of Subsidiaries

- (a) During the six months ended 30 September 2004, the Group disposed 40% of its equity interests in the issued share capital of Satellite Entertainment Communication Co., Limited at a total consideration of HK\$10,000,000. The net assets of this company at the date of the said disposal were as follows:

	30.9.2004 <i>HK\$'000</i>
Net assets disposed of	22,055
Minority Interest	(8,822)
Goodwill	9,009
	<u>22,242</u>
Satisfied by :	
Cash consideration	10,000
Interests in associates	7,414
Loss on disposal	4,828
	<u>22,242</u>

13. Disposal of Subsidiaries (Continued)

- (b) During the period, the Group disposed a wholly-owned subsidiary, namely China Sports Television Productions Limited (“CSTV”) at a total consideration of approximately S\$2,400,000 (equivalent to approximately HK\$10,999,000). The net assets of this subsidiary at date of the said disposal were as follows:

	15.9.2004
	<i>HK\$'000</i>
Net assets disposed of	10,583
Gain on disposal	416
	<u>10,999</u>
Satisfied by :	
Cash consideration	<u>10,999</u>
	<u>10,999</u>

14. Pledge of Assets

Save as certain asset being pledged against a finance lease obligations, as at 30 September 2004, no assets of the Group have been pledged to secure any banking facilities granted to the Group. At 30 September 2003, leasehold land and buildings with an aggregate net book value of approximately HK\$1.8 million and trade debtors of approximately HK\$0.9 million were pledged to banks to secure certain banking facilities granted to the Group.

At 30 September 2003, an amount of 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) For the period ended 30 September 2003, the Group purchased property, plant and equipment of approximately HK\$550,000 from a subsidiary of Sun Stone Media Group Limited, in which Ms. Yang Lan, the vice-chairman and executive director of the Company, and Dr. Wu Zheng, Bruno, the former director of the Company, have beneficial interests. The property, plant and equipment were transferred at their net book values.
- (b) For the period ended 30 September 2003, the Group received licensing income of HK\$5,393,258 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) For the period ended 30 September 2003, the Group paid satellite fee of HK\$963,082 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) For the period ended 30 September 2003, the Group purchased programme rights of approximately HK\$716,000 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.

15. Related Party Transactions (Continued)

- (e) For the period ended 30 September 2003, the Group received advertising income of approximately HK\$15,169,000 and paid agency fee of approximately HK\$5,056,000 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, the former director of the Company, is also a director of 媒體棧.
- (h) At 30 September 2003, amount of HK\$472,000 was due to minority shareholders of a subsidiary. The amount is unsecured, non-interest bearing and repayable on demand.

16. Post Balance Sheet Events

1. Variation of Terms of Subscription Agreement

On 15 September 2004, the Company has entered into a third supplemental agreement (the “**Third Supplemental Agreement**”) with Cosmos Media Investments Limited as subscriber (the “**Subscriber**”) to vary certain terms of a subscription agreement dated 6 June 2002 (the “**Subscription Agreement**”, as amended by the first supplemental agreement dated 9 July 2002 and the second supplemental agreement dated 27 August 2002) pursuant to which, among other things:

- (a) the maximum number of Shares which may be issued upon conversion of the outstanding tranche 1 bonds (the “**Outstanding Tranche 1 Bonds**”, as set out in the Subscription Agreement) in the principal amount of US\$200,000 shall be increased from 38,518,518 Shares to 130,000,000 Shares;
- (b) the maximum number of Shares which may be issued upon full exercise of the option (the “**Option**”) attached to the Outstanding Tranche 1 Bonds shall be increased from 28,888,888 Shares to 97,500,000 Shares;
- (c) the maximum number of Shares which may be issued upon full exercise of the further option (the “**Further Option**”) to subscribe for additional shares as set out in the said second supplemental agreement shall be decreased from 770,370,370 Shares to 770,370,250 Shares given the reduction in the total value of the Further Option from US\$4,000,000 to US\$1,185,185;
- (d) the fixed conversion price in respect of the Outstanding Tranche 1 Bonds and the subscription price for Shares in respect of the Option shall be fixed at (i) HK\$0.012 per Share if the conversion notice or the exercise notice (as the case may be) is received by the Company on or before 30 April 2005; or (ii) the higher of 90% of the closing price per Share as quoted on the Stock Exchange on the business day immediately preceding the date of receipt of the conversion notice or the exercise notice (as the case may be) or the nominal value of the Share, if the date of such receipt falls between 1 May 2005 and the Maturity Date (being 9 July 2005) (subject to adjustment), provided that the conversion price or subscription price (as the case may be) shall not be less than the nominal value of the Shares on such date unless permitted by law and in compliance with the Listing Rules; and

16. Post Balance Sheet Events (Continued)

1. Variation of Terms of Subscription Agreement (Continued)

- (e) the denomination for the certificates of the Outstanding Tranche 1 Bonds shall be reduced from US\$100,000 to US\$50,000.

The Third Supplemental Agreement was approved by the Shareholders at a special general meeting (the “SGM”) of the Company held on 12 November 2004.

The Company has issued 194,362,500 Shares to the Subscriber at an issue price of HK\$0.012 each to the Subscriber on 3 December 2004 for the Outstanding Tranche 1 Bonds to the extent of US\$150,000 and the Option pursuant to the Third Supplemental Agreement whilst the Further Option has not yet been exercised by the Subscriber.

2. Subscription of New Shares

Pursuant to an announcement and a circular of the Company dated 8 October 2004 and 25 October 2004 respectively, a conditional placing agreement dated 5 October 2004 has been entered into between the Company and Achambay Investment Corporation as subscriber (the “Placing Subscriber”) in relation to (1) the placing of 387,500,000 shares (“Share(s)”) in the capital of the Company (the “Placing Shares”) at a placing price of HK\$0.012 each amounting to a total consideration of HK\$4,650,000; and (2) the grant of a right by the Company to the Placing Subscriber to subscribe for a maximum of 178,850,000 Shares (the “Option Shares”) at a subscription price of H\$0.013 each. The issue of the Subscription Shares has been approved by the Company’s shareholders (the “Shareholders”) at the SGM of the Company held on 12 November 2004. The Placing Shares have been allotted and issued to the Placing Subscriber on 24 November 2004 whilst the Option Shares have not yet been issued.

3. Loan Capitalisation

Pursuant to an announcement and a circular of the Company dated 8 October 2004 and 25 October 2004 respectively, a conditional loan capitalisation agreement (the “Loan Capitalisation Agreement”) dated 6 October 2004 entered into between the Company, 上海錦潮絲綢有限責任公司 (Shanghai Jinchao Silk Co. Ltd.) as creditor (the “Creditor”) and 寧波盛光包裝印刷有限公司 (Ning Bo Shengguang Packaging and Printing Co., Ltd.) as assignor (the “Assignor”) pursuant to which, among other things, (1) the Assignor shall assign a loan of RMB10,000,000 (approximately HK\$9,433,962) (the “Loan”) originally due to the Assignor by the Company to the Creditor; and (2) the Company shall issue 786,160,000 Shares (the “Capitalisation Shares”) at a capitalisation price of HK\$0.012 each to set off against the Loan. The issue of the Subscription Shares has been approved by the Shareholders at the SGM held on 12 November 2004. The Loan Capitalisation Shares have been allotted and issued to the Creditor on 24 November 2004.

16. Post Balance Sheet Events (Continued)

4. Proposed Change of Company Name

To better reflect the Group's long-term business strategy and its commitment to cultural and educational businesses, as well as capitalizing on the goodwill of the Tidetime Group in China's educational sector, the Board announced on 15 November 2004 that it was proposed to change the name of the Company to "Tidetime Sun (Group) Limited" and to adopt "泰德陽光(集團)有限公司" as its Chinese name for identification purpose, subject to the approval of the Shareholders at the forthcoming SGM.

5. Subscription of New Shares

The Board announces on 3 December 2004 that the Company has entered into conditional subscription agreements (the "**Subscription Agreements**") on 26 November 2004 with Ener-B Corporation and Mr. Zheng Yuhan respectively for an aggregate subscription of 555,555,556 new Shares (the "**Subscription Shares**"), at a price of HK\$0.018 per Subscription Share (the "**Subscriptions**"). Completion of the Subscriptions is conditional upon, among other things, the passing of ordinary resolutions at the forthcoming SGM to be convened for, inter alia, the approval of the issue of the Subscription Shares pursuant to the terms and conditions of the Subscription Agreements. The net proceeds from the Subscriptions of approximately HK\$10,000,000 are intended to be used as to (i) approximately HK\$6,000,000 be used to repay the existing liabilities of the Group and (ii) the remaining balance of HK\$4,000,000 for general working capital purpose.

6. Proposed Disposal of China Sports Media Limited ("**China Sports**")

(a) *The S&P Agreement dated 22 December 2004*

The Board announced on 23 December 2004 that the Company (as the vendor) has entered into a conditional sale and purchase agreement (the "**S&P Agreement**") with Sun Media Investment Limited 陽光媒體投資有限公司 (as the Purchaser) on 22 December 2004 for the proposed disposal (the "**Proposed Disposal**") of the entire interest in China Sports at a consideration of HK\$46,200,000 (the "**Consideration**") which will be satisfied by the Purchaser in cash and/or the Eligible Investments (as defined in the S&P Agreement) within 180 days after the completion date of the Proposed Disposal. Upon completion of the Proposed Disposal, the Company will cease to have any equity interests in China Sports.

As the Purchaser is an associate of Ms. Yang Lan ("**Ms. Yang**"), the vice-chairman and executive director of the Company and Dr. Wu Zheng, Bruno ("**Dr. Wu**"), the former executive director of the Company, the Purchaser is a connected person of the Company as defined under the Listing Rules. Accordingly, the Proposed Disposal constitutes a connected transaction and a discloseable transaction of the Company under the Listing Rules. The Proposed Disposal is, among other things, conditional upon the independent shareholders (means the Shareholders other than Dr. Wu, Ms. Yang and their respective associates) having passed resolution(s) at the forthcoming SGM to approve the Proposed Disposal and the transactions contemplated under the Profit Guarantee Modification Agreement (as defined below).

16. Post Balance Sheet Events (Continued)

6. Proposed Disposal of China Sports Media Limited (“China Sports”) (Continued)

(b) The Profit Guarantee Modification Agreement dated 22 December 2004

Under a conditional sale and purchase agreement (the “**CS Agreement**”) dated 21 May 2004 entered into between Mr. Li Hon Sang (“**Mr. Li**”, as the then vendor) and the Company (as the then purchaser) in respect of the acquisition (the “**CS Acquisition**”) of the entire interest of China Sports by the issue of 1,400,000,000 new Shares (the “**Consideration Shares**”) at HK\$0.013 each, Mr. Li (as a guarantor) warranted to the Company (as a beneficiary) that the average profit after tax of China Sports for each of the 2 consecutive years ending 31 March 2006 shall not be less than RMB10,000,000 (the “**Original Profit Guarantee**”). Mr. Li also undertook that he will not sell or transfer all or any part of the Consideration Shares within 2 years from 7 July 2004, being the completion date of the CS Acquisition, in accordance with the terms and conditions under the CS Agreement (the “**Moratorium Arrangement**”). The details of the CS Agreement and the CS Acquisition have been disclosed in a circular of the Company dated 25 June 2004.

On 22 December 2004, Company has entered into a conditional agreement (the “**Profit Guarantee Modification Agreement**”) with Mr. Li whereas the Company and Mr. Li agreed that, subject to the completion of the Proposed Disposal and the Company has received the Consideration in full from the Purchaser (or its nominee(s)) pursuant to the S&P Agreement and in consideration of Mr. Li (as a guarantor) continuing his undertakings and obligations under the Original Profit Guarantees in favour of the Purchaser (instead of the Company) (as the beneficiary), the Company agreed to revoke the Moratorium Arrangement. The Profit Guarantee Modification Agreement and the transactions contemplated thereunder are conditional upon the Shareholders having passed resolution(s) at the forthcoming SGM.

7. Litigations

On 17 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 for the sum of US\$300,000, RMB4,300,000 and MOP2,804,000 of which obligation to pay for the said operation costs of TV Viagens undertaken by STCC in the written agreement (“**Written Agreement**”) on 8 August 2000 signed between Mr. Lee Ping, Mr. Xu Chenghai, Mr. Chen Jianren and Kuok Luen (Macau) Agenta 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 MOP13,627,000 and MOP2,035,000 being loans and director’s remuneration, respectively, were waived by Mr. Lee Ping pursuant to the Written Agreement and; (iii) damages, interest and costs.

16. Post Balance Sheet Events (Continued)

7. Litigations (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 11 September 2002 made between STCC and Macau Media Holdings; and (iv) interests and costs. The third party notice was issued on 20 December 2002. On 17 March 2003, STCC filed and served a Third Party Statement of Claim and on 14 April 2003, Macau Media Holdings filed and served a Defence.

There was no progress during the period in respect of the above litigations. STCC was disposed of by the Group on 26 June 2004.

BUSINESS REVIEW & PROSPECTS

Financial Review

As part of the Group's restructuring exercise, the Group has disposed 70% of its satellite television operations in June 2003 and its entire interest in newspaper publishing business in December 2003 which had continued to incur serious losses. Following such disposals, the operating results of these businesses were not consolidated into the Group's financial results during the period. As such, the Group recorded a turnover of approximately HK\$46 million for the six months ended 30 September 2004, representing a decrease of 68% as compared with approximately HK\$144 million recorded in the corresponding period last year.

The Group has recorded a loss attributable to shareholders of approximately HK\$45 million and the loss per share was HK0.31 cent (2003/04: HK0.06 cent). Increase in loss attributable to shareholders was due to the combined effects of:

1. In corresponding period last year, there was a gain on disposal of the Group's investments and a reversal of impairment loss from the prepaid airtime in relation to Sing Pao Daily totaling HK\$19.5 million;
2. In current period, prudent provisions have been made against:—
 - (a) obsolete stock (mainly including aged audio-video products brought forward from Jingwen Records, which has been entirely disposed of by the Group in March 2003) of approximately HK\$7.5 million;

BUSINESS REVIEW & PROSPECTS *(Continued)*

Financial Review *(Continued)*

- (b) doubtful debt of approximately HK\$2.3 million; and
- (c) impairment for property, plant and equipment totaling HK\$2.8 million.

In addition to the prudent provisioning above-mentioned, the management of the Company is now thoroughly assessing all operating assets and investments of the Group and will make adequate provisions as warranted.

Business Review

The first half of the 2004/05 financial year was a transitional moment in the Group's corporate history while remaining another challenging period for the Group.

To reduce the Group's reliance on the increasingly competitive satellite television broadcasting and production businesses, the Group has implemented business restructuring and consolidation during the period with cultural and educational publishing business as its primary focus. In this regard, the Group disposed 40% of its interest in JET TV (i.e. Satellite Entertainment Communication Co., Limited), and thereby reducing its interest thereon from 60% to 20% during the period. Further, during the period, the Group has also disposed its entire interest in China Sports Television Productions Limited, which held substantial portion of the Group's television programme production facilities. Following such disposal, it will enhance the cost control flexibility and minimizing the fixed overhead costs of the Group.

As announced in September 2004, the Group proposed to acquire the entire equity interest in Tidetime Future Optical Media Technology Limited, a multi-media educational publishing business in China (the "**Tidetime Acquisition**") and successfully introduced Tidetime, a renowned education media enterprise in China, specializing in remote education, brand-name publishing and distribution of multi-media educational products, as one of the Company's substantial shareholders. Tidetime has a wide spectrum of educational multi-media products covering leading international language proficiency learning materials exclusively franchised by the American Educational Testing Service (ETS) for China, including TOEFL[®], GRE[®] and TSE[®] as well as other flagship products with internationally acclaimed labels, such as National Geographic[®] and Cool Play English[®]. The Tidetime Acquisition highlights the Group's determination to strengthen its business development in the educational business. With strong foothold in cultural and educational business, particularly in China, Tidetime will facilitate the Group in capturing and exploiting the tremendous business opportunities arising from domestic educational publishing market. Furthermore, we believe the online and offline distribution channels of Tidetime will complement and be synergetic to the Group's existing distribution channels for cultural and educational products, such as Jingwen Education.

BUSINESS REVIEW & PROSPECTS *(Continued)*

Business Review *(Continued)*

Following the completion of the Tidetime Acquisition in October 2004, Tidetime has replaced SINA Corporation as the single largest shareholder of the Company. Furthermore, new management members have been appointed to the Board to strengthen the Group's managerial expertise in educational publishing and related distribution businesses in China.

To better reflect the Group's long-term strategic commitment to the domestic publishing and distribution businesses and to capitalize on the goodwill of Tidetime in this segment, the Company announced on 15 November 2004 the proposed change of company name to "Tidetime Sun (Group) Limited" and the adoption of "泰德陽光(集團)有限公司" as the new Chinese name of the Company for identification purpose.

Prospects

In order to broaden the revenue base of the Group, the Group is committed to further developing educational operation and will continue to be a forerunner for conveying cultural and educational materials and information to the public. The newly added channels from Tidetime will see the more effective realization of this goal.

Furthermore, the Group will closely monitor and re-evaluate its existing operations and investments and will make appropriate adjustments to fit its said long-term business strategy.

Looking forward, the Group will continue its strategies of expanding its existing publication business and prudently exploring other business opportunities. The management will also stick to the stringent cost control measures in order to improve the profitability of the Group. The management is confident that with the termination of those loss-making businesses, such as satellite TV and newspaper publishing businesses, resources will be better directed to the business with promising prospects, resulting in the improved profitability in the medium term. All in all, the Group is determined to reinforce its leadership in the educational and publishing industries in order to secure stable and long-term returns for its shareholders.

Employees and Remuneration Policies

As at 30 September 2004, the Group employed a workforce of 183 (2003: 715). Total staff costs including contributions to the employee retirement benefits scheme incurred during the period amounted to approximately HK\$11.1 million (2003: HK\$63.1 million). The Group offers a comprehensive remuneration and benefit package to its employees and its 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.

BUSINESS REVIEW & PROSPECTS (Continued)

Liquidity and financial resources

As at 30 September 2004, the Group's current ratio was 1.6, with current assets of approximately HK\$113 million against current liabilities of approximately HK\$72 million. Cash and cash equivalents was approximately HK\$8.2 million. The Group's gearing ratio, as calculated based on the Group's total non-current liabilities over shareholders' fund, was approximately 1%.

Outstanding convertible bonds at 30 September 2004 amounted to approximately HK\$1.6 million (and substantial of which was converted into Shares after the balance sheet date). As at 30 September 2004, the bank borrowings were approximately HK\$0.9 million.

Contingent liabilities

- (a) As at 30 September 2004, the Group has given guarantee on behalf of an associate company for service agreement amounting to approximately HK\$4.6 million.
- (b) The Group has also given a profit guarantee in favour of the purchaser for each of the two 12-month period commencing on the completion date for a former subsidiary disposed by the Group during the period, the consolidated net profit of the said former subsidiary for each of such periods shall not be less than RMB2,500,000 (equivalent to approximately HK\$2,336,450) (the "**Guarantee Profit**").

In the event that the consolidated net profit of the said former subsidiary for any of the said periods is less than the Guaranteed Profit, the Company shall indemnify the said purchaser and make an ex-gratia payment to the purchaser equivalent to either (a) the difference between the Guaranteed Profit and the said former subsidiary actual consolidated net profit in cash or (b) (if the said former subsidiary makes a loss) the sum of the quantum of the loss and the Guaranteed Profit, upon written demand by the said purchaser.

Other than the above, there were no material changes in contingent liabilities of the Group during the period.

Exchange rate exposures

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 borrowings (denominated in other foreign currencies) and did not engage in any financial instruments for hedging or speculative activities. There were no material changes in the risk of fluctuation in exchange rates since the Annual Report 2004 of the Company.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2004 (2003: nil).

DIRECTORS' RIGHT TO ACQUIRE SHARES

The interests of the Directors in share options of the Company as at 30 September 2004 were as follows :

Directors	Number of share options outstanding as at 30 September 2004	Exercise Price HK\$	Exercisable period of share options
Existing Director			
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
Past Directors (Note)			
Dr. Wu Zheng, Bruno (resigned on 8 December 2004)	30,000,000	0.241	5.9.2000 — 4.9.2010
	80,000,000	0.152	31.1.2001 — 30.1.2011
Mr. Duan Yongji (resigned on 28 October 2004)	40,000,000	0.109	4.1.2002 — 3.1.2012
	10,000,000	0.071	16.9.2002 — 15.9.2012
Mr. Chen Xiaotao (resigned on 28 October 2004)	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 (resigned on 8 December 2004)	10,000,000	0.071	16.9.2002 — 15.9.2012
Mr. Lin Ning (resigned on 28 October 2004)	8,000,000	0.072	8.8.2002 — 7.8.2012

Note:

In accordance with clause 6.03(a) of the share option scheme of the Company being adopted on 29 October 2002, such outstanding share options granted to the said past Directors have been lapsed automatically on the dates of their respective subsequent resignations.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 September 2004, the interests or short positions of the Directors or chief executives of the Company in the Shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) which were required to be notified 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 the Directors or chief executive were 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 or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange were as follows:

Long Positions in the Shares

Name of Directors	Capacity	Number of Shares
Ms. Yang Lan	Interest of a controlled corporation	571,600,000 (Note)
	Beneficial owner	207,940,000 (Note)
Dr. Wu Zheng, Bruno (resigned on 8 December 2004)	Interest of a controlled corporation	571,600,000 (Note)
	Beneficial owner	207,940,000 (Note)

DIRECTORS' INTERESTS IN SECURITIES (Continued)

Note :

Such Shares were held by Sun Media Investment Holdings Limited (“SMI”) which is owned as to 80% by Ms. Yang Lan (“Ms. Yang”), the executive Director and vice-chairman of the Company and spouse of Dr. Wu Zheng, Bruno (“Dr. Wu”) and as to 20% by Dr. Wu Zheng, Bruno (“Dr. Wu”), the former executive Director of the Company who was resigned on 8 December 2004. 207,940,000 Shares were held by Ms. Yang in trust for SMI. Therefore, Ms. Yang and Dr. Wu are deemed to be interested in such Shares by virtue of Part XV of the Securities and Futures Ordinance.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2004, so far as are known to the Directors or chief executive of the Company, the shareholders (other than the Directors or the chief executive of the Company) who had interests or short positions in the Shares and underlying shares of the Company, being 5% or more of the Company’s issued share capital, which were required to be disclosed to the Company under Part XV of the Securities and Futures Ordinance were as follows :

Name of Substantial Shareholder	No. of Shares	% of holding	No. of underlying Shares	% of holding
SINA Corporation	2,028,122,000	12.45	—	—
Li Hon Sang	1,400,000,000	8.60	—	—
Tide Time Holdings Limited (“Tidetime”) (Note)	—	—	3,667,000,000	18.38

Note :

Such Shares (the “Consideration Shares”), representing 22.52% of the issued share capital of the Company as at 30 September 2004, have been issued and allotted at an issue price of HK\$0.012 each by the Company to Tidetime on 26 October 2004 pursuant to a conditional sale and purchase agreement dated 24 August 2004 entered into between the Company and Tidetime for the acquisition of the entire issued share capital of Tidetime Future Optical Media Technology Limited (the “Tidetime Acquisition”). Such % of holding as shown above was calculated by the number of such Shares divided by the issued share capital of the Company as at 30 September 2004 as enlarged by the issue of the Consideration Shares. The details of the Tidetime Acquisition have been set out in a circular of the Company dated 30 September 2004.

Tidetime is beneficially owned as to 70% by Mr. Chen Ping (the executive director and chief executive officer of the Company who was appointed on 28 October 2004), 5% by Ms. Ma Jianhua (spouse of Mr. Chen Ping), 10% by Ms. Ma Jianying (the executive director and deputy chief executive officer of the Company who was appointed on 28 October 2004, and sister-in-law of Mr. Chen Ping), 2% by Ms. Ke Lin (the executive director of the Company who was appointed on 28 October 2004), 3% by Mr. Walter Stasyshyn (the executive director of the Company who was appointed on 15 November 2004) and 10% Mr. Man Ming (the executive director of the Company who was appointed on 15 November 2004). Mr. Chen Ping and Ms. Ma Jianhua are deemed to be interested in such Shares by virtue of Part XV of the Securities and Futures Ordinance.

SUBSTANTIAL SHAREHOLDERS (Continued)

Save as disclosed above, as at 30 September 2004, the Directors and the chief executive of the Company are not aware of any other persons who had interests or short positions in the Shares and underlying shares of the Company which were required to be disclosed to the Company and the Stock Exchange under Part XV of the Securities and Futures Ordinance, or were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

SHARE OPTION SCHEME

The following table discloses details of share options of the Company held by the existing/past directors of the Company and the employees of the Group during the period:

Date of options granted	Exercisable period	Exercise Price HK\$	No. of options outstanding as at 31.3.2004 and 30.9.2004
Existing/Past Directors (Note)			
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 — 31.1.2012	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
			<hr/> 371,000,000
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
			<hr/> 373,190,000
			<hr/> <u>744,190,000</u>

SHARE OPTION SCHEME *(Continued)*

Note:

In accordance with clause 6.03(a) of the share option scheme of the Company being adopted on 29 October 2002, share options held by the past Directors have been lapsed automatically on the dates of their respective subsequent resignations.

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

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

AUDIT COMMITTEE

The Audit Committee, comprising all the three independent non-executive directors of the Company appointed pursuant to Rule 3.10 of the Listing Rules, 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 30 September 2004.

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 30 September 2004, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

By Order of the Board

Chen Ping

Chairman and Chief Executive Officer

Hong Kong, 28 December 2004

陽光體育媒體集團有限公司
SUN SPORTS MEDIA GROUP LIMITED