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## **SUN MEDIA GROUP HOLDINGS LIMITED**

**陽光體育媒體集團有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 307)**

### **VARIATION OF TERMS OF SUBSCRIPTION AGREEMENT, TERMS AND CONDITIONS OF CONVERTIBLE BONDS DUE 2005, OPTION AND FURTHER OPTION**

Reference is made to the announcements of the Company dated 7 June 2002, 10 July 2002 and 27 August 2002 relating to the subscription of the Bonds by the Subscriber issued by the Company and the grant of the Option and the Further Option to subscribe for additional Shares pursuant to the Subscription Agreement.

As at the date of this announcement, the Outstanding Tranche 1 Bonds amounts to US\$200,000 and the conversion rights attached to the Outstanding Tranche 1 Bonds and the subscription rights attached to the Option and the Further Option have not been exercised by the Subscriber.

On 15 September 2004, the Company agreed with the Subscriber to vary certain terms of the Subscription Agreement, the Terms and Conditions, the Option and the Further Option.

A circular containing details of the Proposed Variation and the notice of the special general meeting of the Company will be despatched to the shareholders of the Company as soon as practicable.

At the request of the Company, the trading in Shares on the Stock Exchange was suspended with effect from 9:30a.m. on 16 September 2004, pending the release of this announcement. Application has been made by the Company for the resumption of trading in Shares on the Stock Exchange with effect from 9:30 a.m. on 28 September 2004.

Reference is made to the announcements of the Company dated 7 June 2002, 10 July 2002 and 27 August 2002 (collectively, the “**Announcements**”) relating to (i) the subscription of the Bonds by the Subscriber to be issued by the Company; (ii) the grant of the Option to holders of the Bonds to subscribe for additional Shares for up to 2.5% of the principal amount of the Bonds subscribed pursuant to the Terms and Conditions; and (iii) the Further Option to subscribe for additional Shares for a total value of US\$4,000,000.

## **BACKGROUND**

### **Terms of the Tranche 1 Bonds, the Option and the Further Option**

On 6 June 2002, the Company agreed to issue and the Subscriber agreed to subscribe for the Bonds. On 9 July 2002, subscription of the Tranche 1 Bonds for the principal amount of US\$6,000,000 was completed.

Pursuant to the Subscription Agreement and the Terms and Conditions, the conversion price for the conversion of the Tranche 1 Bonds was either (a) at the Fixed Conversion Price (which was the lower of (i) HK\$0.15; and (ii) 120% of the average closing price per Share for between 10 to 30 consecutive trading days immediately following the signing of the Subscription Agreement, subject to adjustment); or (b) at the Floating Conversion Price (which was 93% of the average of any 5 consecutive closing prices per Share as selected by the Subscriber during the 30 trading days immediately prior to conversion).

Pursuant to the Terms and Conditions, the subscription price for the additional Shares to be issued upon the exercise of the Option would be equal to the then applicable Fixed Conversion Price.

Pursuant to the Second Supplemental Agreement, the Company granted the Subscriber the Further Option to subscribe for additional Shares for a total value of US\$4,000,000, with the subscription price per Share being any of the actual conversion prices of the Tranche 1 Bonds selected by the Subscriber.

### **Distribution in specie**

As set out in the announcements of the Company dated 3 October 2003 and 5 December 2003, the Company proposed to distribute shares of Leadership Publishing Group Limited held by the Company to its shareholders by way of a special interim dividend in specie, subject to completion of the capital reorganization. Such distribution in specie, effective as of 8 December 2003, had triggered an adjustment in the conversion price and the subscription price of the Outstanding Tranche 1 Bonds, the Option and the Further Option (as the case may be).

At the same time, the distribution in specie also caused a change in the number of Shares to be issued upon conversion of the Tranche 1 Bonds as well as the exercise of the Option and the Further Option in the following manner (based on the adjusted Fixed Conversion Price and subscription price thereof which was reduced from HK\$0.055 to HK\$0.0405):

1. the number of Shares to be issued upon full conversion of the Outstanding Tranche 1 Bonds was increased from 28,363,636 Shares to 38,518,518 Shares;
2. the number of Shares to be issued upon exercise in full of the Option was increased from 21,272,727 Shares to 28,888,888 Shares; and
3. the number of Shares to be issued upon exercise in full of the Further Option was increased from 567,272,727 Shares to 770,370,370 Shares.

## **THIRD SUPPLEMENTAL AGREEMENT DATED 15 SEPTEMBER 2004**

### **Terms of the Third Supplemental Agreement**

On 15 September 2004, the Company entered into the Third Supplemental Agreement with the Subscriber to vary certain terms of the Subscription Agreement, the Terms and Conditions, the Option and the Further Option which are summarised as follows:

1. the Fixed Conversion Price in respect of the Outstanding Tranche 1 Bonds and the subscription price for Shares (being the equivalent of the Fixed Conversion Price) 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;
2. the total value to which the Further Option is subject shall be reduced from US\$4,000,000 to US\$1,185,185 and the subscription price for Shares in respect thereof shall be (i) HK\$0.012 per Share if the exercise notice 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 exercise notice 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);
3. the Bonds shall no longer be subject to the Floating Conversion Price; and
4. the denomination for the certificates of the Outstanding Tranche 1 Bonds shall be reduced from US\$100,000 to US\$50,000.

### **Conversion price and subscription price**

The revised Fixed Conversion Price, the new subscription price in respect of the Option and the new subscription price in respect of the Further Option in effect on or before 30 April 2005 upon the Proposed Variation having become effective (being HK\$0.012), represents (i) a discount of 20% to the closing price of HK\$0.015 per Share as quoted on the Stock Exchange on 15 September 2004, being the last trading day immediately prior to the date of this announcement; and (ii) a discount of approximately 15% to the average closing price of approximately HK\$0.0142 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including 15 September 2004.

## Shares to be allotted and issued

Upon the Proposed Variation having become effective and assuming the conversion price or subscription price (as the case may be) of the Outstanding Tranche 1 Bonds, the Option and the Further Option is HK\$0.012:

1. the maximum number of Shares which may be issued upon conversion of the Outstanding Tranche 1 Bonds will be increased from 38,518,518 Shares to 130,000,000 Shares, representing approximately 0.80% of the issued share capital of the Company as at the date of this announcement and approximately 0.79% of the issued share capital of the Company as enlarged by the issue of such Shares;
2. the maximum number of Shares which may be issued upon full exercise of the Option will be increased from 28,888,888 Shares to 97,500,000 Shares, representing approximately 0.60% of the issued share capital of the Company as at the date of this announcement and approximately 0.60% of the issued share capital of the Company as enlarged by the issue of such Shares; and
3. the maximum number of Shares which may be issued upon full exercise of the Further Option will be decreased from 770,370,370 Shares to 770,370,250 Shares, representing approximately 4.73% of the issued share capital of the Company as at the date of this announcement and approximately 4.52% of the issued share capital of the Company as enlarged by the issue of such Shares (the decrease in the number of Shares to be issued was due to the corresponding reduction in the total value of the Further Option from US\$4,000,000 to US\$1,185,185).

## Shareholders' approval and listing approval

Prior shareholders' approval and listing approvals have been obtained to the extent of 38,518,518 Shares to be issued upon conversion of the Outstanding Tranche 1 Bonds, of 21,272,727 Shares to be issued upon the exercise of the Option and of 770,370,370 Shares to be issued upon the exercise of the Further Option (in each case based on the adjusted Fixed Conversion Price of HK\$0.0405 per Share or subscription price thereof prior to the Proposed Variation having become effective), a summary of which is set out as follows:

		(1) Number of Shares which may be issued immediately prior to the distribution in specie	(2) Number of Shares which may be issued immediately after the Proposed Variation having become effective	(3) Number of Shares which may be issued immediately after the Proposed Variation having become effective (assuming the conversion price or subscription price is HK\$0.012)	(4) Number of Shares permitted under previous listing approvals granted by the Stock Exchange	(5) Number of Shares in excess of the limit permitted under the previous listing approvals granted by the Stock Exchange
Outstanding Tranche 1 Bonds	US\$200,000	28,363,636	38,518,518	130,000,000	38,518,518	91,481,482
Option	US\$150,000	21,272,727	28,888,888	97,500,000	21,272,727	76,227,273
Further Option	US\$4,000,000 (prior to the Proposed Variation having become effective)/ US\$1,185,185 (after the Proposed Variation having become effective)	567,272,727	770,370,370	770,370,250	567,272,727	203,097,523
<b>Total</b>		<b><u>616,909,090</u></b>	<b><u>837,777,776</u></b>	<b><u>997,870,250</u></b>	<b><u>627,063,972</u></b>	<b><u>370,806,278</u></b>

Pursuant to the Third Supplemental Agreement, the Company shall procure that all necessary approvals of and consent to the amendments as set out in the Third Supplemental Agreement, including but not limited to (i) the approval of its shareholders for the allotment and issue of the Shares pursuant to the exercise of the Outstanding Tranche 1 Bonds, the Option and the Further Option (which shall be 997,870,250 Shares if the conversion price or subscription price (as the case may be) is HK\$0.012) at its special general meeting to be convened to be held on or before 15 November 2004 (or such other date as the parties thereto may agree); and (ii) the approval of the Stock Exchange for the issue of Shares upon exercise of the Outstanding Tranche 1 Bonds, the Option and the Further Option, be obtained within 20 business days (the “**Long Stop Date**”) after the conclusion of the aforesaid special general meeting. The Subscriber agrees not to exercise the conversion right attached to the Outstanding Tranche 1 Bonds, the subscription right pursuant to the Option and the Further Option prior to the Long Stop Date. In the event that the Company shall fail to obtain the aforesaid approval of its shareholders on or before 15 November 2004, the Subscriber may demand for the payment of a sum equivalent to 20% of such amount of the Outstanding Tranche 1 Bonds, such amount of the Option and the Further Option (being US\$1,185,185) (but the aggregate amount of such payment shall not exceed US\$100,000) (the “**Penalty**”). Subject to the aforesaid, in the event that the Company shall fail to obtain the approvals of and consent to the amendments as set out in the Third Supplemental Agreement (including the aforesaid Stock Exchange approval but excluding the shareholders’ approval), the obligations of the Company and the Subscriber shall cease and terminate (save and except amendment numbered four as set out in the paragraph headed “Terms of the Third Supplemental Agreement” above and obligation to pay the Penalty by the Company, which shall continue to have full force and effect).

As the number of Shares to be allotted and issued immediately after the Proposed Variation having become effective will exceed the prior listing approvals granted by the Stock Exchange and that the prior listing approvals granted by the Stock Exchange were based on the original terms of the Tranche 1 Bonds, the Option and the Further Option, the Stock Exchange has indicated that separate application will have to be made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in an aggregate of 997,870,250 Shares (being the total number of Shares as set out in column 3 of the table above) to be issued upon conversion of the Outstanding Tranche 1 Bonds (being 130,000,000 Shares) and the exercise of the Option (being 97,500,000 Shares) and the Further Option (being 770,370,250 Shares), assuming the conversion price or subscription price (as the case may be) is HK\$0.012.

Assuming the conversion price or subscription price (as the case may be) is HK\$0.012, the aggregate 997,870,250 Shares to be allotted and issue upon the exercise of the Outstanding Tranche 1 Bonds, the Option and the Further Option upon the Proposed Variation having become effective shall be allotted and issued pursuant to the approval to be granted to the Directors at a special general meeting to be convened to be held by the Company.

## SHAREHOLDING STRUCTURE

As at the date of this announcement, the Subscriber is not interested in the issued share capital of the Company. As at the date of this announcement, the conversion right attached to the Outstanding Tranche 1 Bonds, the subscription rights pursuant to the Option and the Further Option have not been exercised by the Subscriber.

Set out below is a summary of the shareholding structure of the Company immediately before and after the exercise in full by the Subscriber of the conversion rights attached to the Outstanding Tranche 1 Bonds and the subscription rights pursuant to the Option and the Further Option:

Name of shareholder	Shareholding immediately before the exercise of the Outstanding Tranche 1 Bonds, the Option and the Further Option		Shareholding immediately after the exercise of the Outstanding Tranche 1 Bonds, the Option and the Further Option	
	No. of Shares	% of shareholding (approximate)	No. of Shares	% of shareholding (approximate)
SINA Corporation	2,028,122,000	12.45%	2,028,122,000	11.74%
Sun Media Investment Holdings Limited ("SMI")	779,540,000	4.79%	779,540,000	4.51%
The Subscriber	—	—	997,870,250	5.77%
Other public shareholders	13,476,587,324	82.76%	13,476,587,324	77.98%
<b>Total</b>	<b><u>16,284,249,324</u></b>	<b><u>100.00%</u></b>	<b><u>17,282,119,574</u></b>	<b><u>100.00%</u></b>

*Note:—*

SMI is owned as to 50% by Dr. Wu Zheng, Bruno, the executive Director, chairman and chief executive officer of the Company and as to 50% by Ms. Yang Lan, the executive Director and vice-chairman of the Company, who is the spouse of Dr. Wu Zheng, Bruno. 207,940,000 Shares are held by Ms. Yang Lan in trust for SMI. Therefore, Dr. Wu Zheng, Bruno and Ms. Yang Lan are deemed to be interested in such Shares.

## REASONS FOR THE PROPOSED VARIATION

The Third Supplemental Agreement was entered into in order to amend the conversion price and subscription price (as the case may be) of the Outstanding Tranche 1 Bonds, the Option and the Further Option. Immediately prior to the Proposed Variation having become effective, the conversion price (assuming the Fixed Conversion Price is adopted) and the subscription price pursuant to the Option and the Further Option is HK\$0.0405. Immediately upon the Proposed Variation having become effective, the conversion price and the subscription price (as the case may be) of the Outstanding Tranche 1 Bonds, the Option and the Further Option shall be (i) HK\$0.012 on or before 30 April 2005 or (ii) the higher of 90% of the closing price of the Shares or the nominal value of the Shares between 1 May 2005 and the Maturity Date (being 9 July 2005).

On 15 September 2004, being the last trading day immediately prior to the date of this announcement, the closing price of the Shares was HK\$0.015 per Share as quoted on the Stock Exchange. Accordingly, the Directors consider that the reduction of the conversion price and the subscription price (as the case may be) pursuant to the exercise of the Outstanding Tranche 1 Bonds, the Option and the Further Option from HK\$0.0405 to HK\$0.012 can better reflect the current market price of the Shares as traded on the Stock Exchange. Furthermore, the Directors consider that such reduction can strengthen the case for conversion and the exercise of the Outstanding Tranche 1 Bonds, the Option and the Further Option (as the case may be). The Directors believe that this will strengthen the equity base and improve the liquidity of the Shares and the Company's working capital position.

The Board considers that the Proposed Variation, which was arrived at after arm's length negotiations between the Company and the Subscriber, is fair and reasonable and in the interests of the Company.

Save to the extent mentioned in this announcement, all other terms and conditions of the Subscription Agreement, the Outstanding Tranche 1 Bonds, the Option and the Further Option as set out in the Announcements remain unchanged and are in full force and effect.

## **GENERAL**

A circular containing details of the Proposed Variation and the notice of the special general meeting of the Company will be despatched to the shareholders of the Company as soon as practicable.

At the request of the Company, the trading in Shares on the Stock Exchange was suspended with effect from 9:30a.m. on 16 September 2004, pending the release of this announcement. Application has been made by the Company for the resumption of trading in Shares on the Stock Exchange with effect from 9:30a.m. on 28 September 2004.

## **DEFINITIONS**

In this announcement, the following expressions shall, unless the context requires otherwise, have the following meanings:

“Board”	the board of directors of the Company
“Bonds”	Tranche 1 Bonds and/or Tranche 2 Bonds and/or Tranche 3 Bonds
“Bondholder(s)”	holder(s) of the Bonds
“Company”	Sun Media Group Holdings Limited, a company incorporated in Bermuda with limited liability and the issued shares of which are listed on the main board of the Stock Exchange
“Directors(s)”	director(s) of the Company from time to time



“First Supplemental Agreement”	a supplemental agreement dated 9 July 2002 entered into between the Company and the Subscriber
“Fixed Conversion Price”	the conversion price of the Bonds which, in respect of the Tranche 1 Bonds, is the lower of (i) HK\$0.15 or 120% of the average closing price per Share for between 10 to 30 consecutive trading days as selected by the Bondholder immediately following completion of the subscription of the Tranche 1 Bonds; in respect of the Tranche 2 Bonds, at the lower of (i) the last actual conversion price of the Tranche 1 Bonds prior to the issue of Tranche 2 Bonds and (ii) 120% of the average of the closing prices of the Shares for between 10 to 30 consecutive trading days as selected by the Bondholder immediately preceding the date of the exercise notice in relation to the Tranche 2 Bonds; in respect of the Tranche 3 Bonds, the lower of (i) the last actual conversion price of the Tranche 2 Bonds prior to issue of Tranche 3 Bonds and (ii) 120% of the average of the closing prices of the Shares for between 10 to 30 consecutive trading days as selected by the Bondholder immediately preceding the exercise notice in relation to the Tranche 3 Bonds; subject to adjustment as set out in the Terms and Conditions
“Floating Conversion Price”	the conversion price of the Tranche 1 Bonds or, as the case may be, the Tranche 2 Bonds and the Tranche 3 Bonds into the Shares which is set at 93% of the average of any 5 closing prices per Share as selected by the Bondholder during the 30 business days immediately prior to conversion
“Further Option”	the option granted by the Company to the Subscriber to subscribe for additional new Shares at a total value of US\$4,000,000 in accordance with the terms of the Second Supplemental Agreement
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date”	maturity date of the Bonds
“Option”	the option granted by the Company to the holders of each of the Bonds to subscribe for additional Shares for a total value up to 2.5% of the principal amount of each of the Bonds pursuant to the Terms and Conditions

“Outstanding Tranche 1 Bonds”	the Tranche 1 Bonds in the outstanding principal amount of US\$200,000
“Proposed Variation”	the proposed variation to the terms of the Tranche 1 Bonds, the Option and the Further Option as set out in the Third Supplemental Agreement
“Second Supplemental Agreement”	the supplemental agreement dated 27 August 2002 entered into between the Company and the Subscriber
“Share(s)”	ordinary share(s) of HK\$0.01 each in the capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Cosmos Media Investments Limited, a wholly-owned subsidiary of FB Gemini Asset Management Limited, which together with its ultimate beneficial owners, are, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, third parties independent of and not connected persons (as defined in the Listing Rules) of the Company and its subsidiaries
“Subscription Agreement”	the subscription agreement dated 6 June 2002 entered into between the Company and the Subscriber relating to, among other matters, the subscription of the Bonds, as supplemented by the First Supplemental Agreement and the Second Supplemental Agreement
“Terms and Conditions”	the terms and conditions attached to the Tranche 1 Bonds
“Third Supplemental Agreement”	the supplemental agreement dated 15 September 2004 entered into between the Company and the Subscriber
“Tranche 1 Bonds”	convertible bonds with an aggregate principal amount of between US\$3,000,000 to US\$6,000,000 due 2005 to be issued by the Company and are subscribed by the Subscriber pursuant to the Subscription Agreement
“Tranche 2 Bonds”	convertible bonds with an aggregate principal amount of up to US\$20,000,000 which are to be issued by the Company on substantially the same terms as in the Tranche 1 Bonds
“Tranche 3 Bonds”	convertible bonds with an aggregate principal amount which when aggregate with the Tranche 2 Bonds do not exceed US\$20,000,000 and which are to be issued by the Company on substantially the same terms as in the Tranche 1 Bonds

Unless otherwise specified in this announcement, US\$1.00 = HK\$7.80. No representation is made that any amounts in US\$ or HK\$ could have been or could be converted at such a rate or at any other rates or at all.

By Order of the Board

**Wu Zheng, Bruno**

*Chairman*

Hong Kong, 27 September 2004

*As at the date of this announcement, the executive directors of the Company are Dr. Wu Zheng, Bruno (Chairman & Chief Executive Officer), Mr. Duan Yongji (Vice-Chairman), Ms. Yang Lan (Vice-Chairman), Mr. Chen Xiaotao, Mr. Li John Zongyang, Mr. Lin Ning, Mr. Lu Guoyuan, Mr. Ding Yucheng and Mr. Hu Yishi whilst the independent non-executive directors of the Company are Mr. Yan Tat Wah, Joseph and Mr. Yuen Kon Ming, Jason.*

\* *for identification only*

Please also refer to the published version of this announcement in the China Daily.