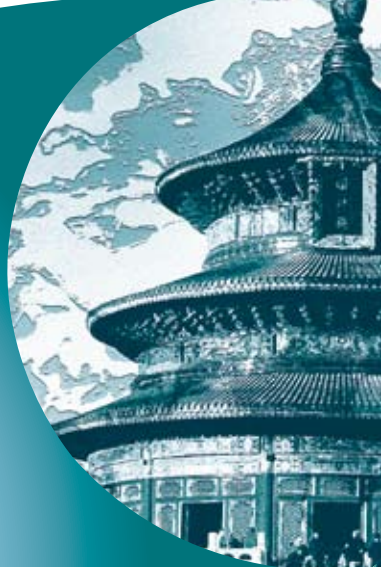




**Asian Union New Media (Group) Limited**  
**華億新媒體(集團)有限公司**

Stock Code : 419



**Interim Report 2008**

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# MANAGEMENT DISCUSSION AND ANALYSIS

The board of directors is pleased to present the Group's interim report and condensed consolidated interim financial information for the six months ended 30th June 2008. The consolidated interim income statement, consolidated interim cash flow statement and consolidated interim statement of changes in equity for the Group for the six months ended 30th June 2008, and the consolidated interim balance sheet as at 30th June 2008 of the Group, all of which are unaudited and condensed but were reviewed by the Audit Committee of the Company, along with selected explanatory notes, are set out on pages 15 to 41 of this report.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Results

The first half of 2008 saw fundamental changes in the domestic and international economy, including earthquake and natural disasters in China which brought great challenges to the Group's operating environment. Whilst China's economy continues to grow as forecast and media advertising expenditure recorded healthy growth, unfavorable factors affecting consumer sentiment in the Mainland market still exist. In the face of such a complex operating environment, the Group adopted proactive counter measures. The Group maintained stable growth mainly through its effective platform for advertisers of premium brands — such as The Travel Channel, and other media resources.

For the six months ended 30th June 2008, the Group's television advertising revenue grew by 25% to HK\$80,654,000 (2007: HK\$64,580,000). Total revenue was HK\$81,180,000, a decrease of 27% compared to HK\$111,132,000 for the same period last year. The drop in the Group's total revenue was mainly attributed to a lesser contribution from movies, TV dramas and other businesses. Loss attributable to shareholders was reduced to HK\$47,408,000 (2007: loss of HK\$48,789,000). During the period under review, loss per share was HK cents 0.278 (2007: HK cents 0.364).

Certain stock options were granted according to the Group's Share Option Scheme during the period under review. The calculation of the above loss per share includes a non-cash stock option expense of HK\$20,876,000, which is not representative of the Group's operating performance. Excluding tax, finance costs and the non-cash stock option expense, net loss and loss per share were HK\$13,366,000 and HK cents 0.078 respectively for the interim period.

## **Business Review and Prospects**

### ***Television Advertising***

During the period under review, continuous growth of consumer sentiment in China fueled strong demand for advertising. Expenditure on television commercials is the highest source of advertising spending among different media channels. Television advertising business continued to be the substantial revenue source for the Group. For the six months ended 30th June 2008, the Group's advertising revenue was HK\$80,654,000, an increase of 25% compared to HK\$64,580,000 for the same period of 2007, making up 99% of the Group's total turnover. Advertising revenue was mainly derived from selling advertising resources of the Travel Channel as per an exclusive advertising agreement with Hai Nan Haishi Travel Satellite TV Media Co ("Hainan Haishi").

Despite the effects of the earthquake and suspension of television programs and advertisements, the Group recorded strong growth in advertising revenue from selling air time and embedded advertisements to direct customers (including title and featured sponsor) during the period. This led to a 25% surge in revenue from television advertising. To capture the frenzy toward the Beijing 2008 Olympics and attract new customers, the Group has introduced more interactive programming to encourage direct audience participation, boost ratings and expand sources of revenue. The new content positions the Travel Channel as an effective advertising platform for prominent brands to capture viewers with high spending power.

## MANAGEMENT DISCUSSION AND ANALYSIS

According to the CTR Market Research, the Travel Channel's popularity rating continues to rise. It also showed that 86.6% of the viewers regard the Travel Channel's programs as "health-conscious and trendy". In other research by CSM Media Research on viewer ratings in 10 major cities in China, the Travel Channel ranked fifth among all provincial satellite TV Channels during prime time for viewers with high monthly income. In June 2008, the Travel Channel was awarded third place in 2007's Ten Most Influential Provincial Satellite TV Channels on Internet by the "Internet Influence on China TV Report – 2008".

The advertising customers of the Travel Channel include many different industries, among them, banking, automobile, telecommunication, fuel, electronics, travel, beauty and dairy products. Over 80% of our customers are in the first class brand category, and the number of international brands is constantly increasing. The Travel Channel provides a stable source of revenue to the Group and at the same time builds on its advertising value.

With an unremitting effort to reduce costs, the Group's marketing and selling expense decreased by 10% compared to the same period of last year. In addition, the Group is currently in negotiation with Hainan Haishi for the possibility of adjusting the exclusive agency fee payable to Hainan Haishi. However, no concrete agreement has been reached yet up to the date of the interim report. During the fiscal year 2007, Hainan Haishi agreed to lower the exclusive agency fee for the year by approximately HK\$33,000,000.

The Group made another significant move toward our vision of expanding advertising on satellite TV channels, as well as centralizing advertising on its cross media platforms. Guangzhou ZhanShi Advertising Company Limited ("Guangzhou Zhanshi"), a subsidiary of Blower Investments Limited ("Blower Investments") and Guangdong Zhong Guan Media Company Limited, has entered into a 3 year advertising agency agreement with Guangdong Television. According to the agreement, Guangzhou ZhanShi will be the exclusive advertising agent of the Guangdong Satellite TV from 1st January 2009 to 31st December 2011.

## MANAGEMENT DISCUSSION AND ANALYSIS

Guangdong Satellite TV is a satellite television channel operated by Guangdong Television, which broadcasts nationwide a variety of programs, including dramas, news and documentaries. According to the CSM media survey in 2006, Guangdong Satellite TV's market share ranked 13th out of over 40 provincial satellite channels (with the exception of CCTV channels). Guangdong Satellite TV ranked 2nd in viewership rating based on market share of channels covering Guangdong Province. Based on viewership coverage, Guangdong Satellite TV's broadcast footprint includes 690 million viewers in China and 2 billion viewers worldwide.

Upon the completion of the acquisition of Blower Investments, the Group will combine its extensive industry experience with Guangdong Satellite TV's high viewership and coverage especially in the prosperous Guangdong Province. Asian Union will realize a platform that can broaden its revenue base by capturing a larger market share and by strengthening its leadership position in the media space. Pursuant to the acquisition agreement, a maximum of 2,100,000,000 shares shall be issued by the Group as the consideration for the acquisition subject to certain conditions. A prime condition will be whether the consolidated net profit of Blower Investments for the 12 months ending 30th June 2009 and 30th June 2010 is or exceeds HK\$80,000,000 and HK\$100,000,000 respectively (refer to the circular issued by the Group on 17th September 2008).

In addition to exclusive advertising agency rights, the Group plans to acquire and consolidate advertising resources from certain local television stations starting in the second half of 2008. This will enhance the Group's ability to serve our customers, increase advertising revenue and to create synergies among different media platforms.

### ***Movies and TV Dramas***

The Group's strategy for the Movies and TV Dramas segment is to focus in exploration of potential values of the existing content library through development of new distribution channels and markets; and to adopt a relatively prudent approach in seeking new investment projects. For the six months ended 30th June 2008, the movie and TV drama segment recorded revenue of HK\$526,000 (2007: HK\$39,000,000), making up 1% of the Group's total turnover. In the first half of 2008, the Group launched a new movie "And the Spring Comes" (立春) directed by GU Changwei (顧長衛) and starring JIANG Wenli (蔣雯麗). Ms. Jiang was awarded best actress at the Rome International Film Festival in 2007. The Group also plans to distribute the film to Japan, Korea and other overseas markets which shall improve brand recognition and boost revenue. The relevant revenue is expected to be realized since the second half of the year.

According to market statistics and research, China's IPTV users have reached 1.97 million. More than 1.2 million people watched the Olympics through mobile TVs, and conversion to digital TV in China is well underway. These new media formats are ushering in a high growth era and the Group aims to establish a full media platform across traditional and new media, thus expanding the distribution channels for the Group's movie and TV drama content as well as creating synergy with the Group's advertising business.

The management believes the new media age is rapidly emerging. The Group will utilize its cross multimedia platform, extensive industry experience and prudent development strategy to seek projects with growth potential. The Group will also develop and aggregate media content to broaden the platform and to solidify its position in the China media industry, creating long term value for shareholders, customers and the society.

## Liquidity and financial resources

As at 30th June 2008, the Group held cash deposits of approximately HK\$289,347,000, a 1.2-time increase compared to the balance as at 31st December 2007. The significant increase in cash balance was mainly due to the issuance of new ordinary shares upon the exercise of warrants. In line with the increase in cash balances and shareholders' equity, the current ratio increased from 1.04 as at 31st December 2007 to 1.29 as at 30th June 2008, and the gearing ratio, representing long term liabilities to net worth, decreased from 0.63 at 31st December 2007 to 0.50 at 30th June 2008. Accordingly, the financial position of the Group has been strengthened.

The Group mainly operates in China and is only exposed to foreign exchange risk arising from Renminbi currency exposures, primarily with respect to the Hong Kong dollars. Accordingly, the exchange rate risks of the Group is considered to be minimal.

All borrowings during the period were based on market interest rate. Other than an outstanding short-term borrowing of approximately HK\$34,123,000, the Group had no long-term bank loan and no bank overdrafts outstanding as at 30th June 2008.

## Charge on Assets

As at 30th June 2008, the Group has pledged deposits of HK\$35,493,000 against its short-term bank borrowing.

## Capital structure

The Group has mainly relied on its shareholders' equity and short-term borrowing to finance its operations. As at 30th June 2008, the Group had outstanding short-term borrowing of approximately HK\$34,123,000.

During the period under review, the Company has issued 1,900,000,000 new ordinary shares at HK\$0.0991 each upon the exercise of warrants.



## MANAGEMENT DISCUSSION AND ANALYSIS

### **Number and remuneration of employees, remuneration policies, bonus and share option schemes and training schemes**

As at 30th June 2008, the Group employed a total of 4 full-time employees in Hong Kong and a work force of about 99 in the PRC. The Group operates different remuneration schemes for sales and non-sales employees. Sales personnel are remunerated on the basis of on-target-earning packages comprising salary and sales commission. Non-sales personnel are remunerated by monthly salary which is reviewed by the Group from time to time and adjusted based on performance. In addition to salaries, the Group provides staff benefits including medical insurance, contribution to staff provident fund and discretionary training subsidies. Share options and bonuses are also available at the discretion of the Group and depending on the performance of the Group.

## OTHER INFORMATION

### PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 30th June 2008, the interests of each director and chief executive in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO which have been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), were as follows:

- (i) Long positions in the shares of the Company:

Directors	Capacity	Note	Number of shares held	Approximate percentage of the Company's existing share capital
Edward TIAN Suning	Interest held by controlled corporation	1	3,400,000,000	18.77%

## OTHER INFORMATION

- (ii) Long positions in the underlying shares of the Company – convertible notes:

<b>Directors</b>	<b>Capacity</b>	<b>Note</b>	<b>Amount of the convertible notes</b>	<b>Number of the total underlying shares</b>
Edward TIAN Suning	Interest held by controlled corporation	1	HK\$49,000,000	1,000,000,000

- (iii) Long positions in the underlying shares of the Company – share options:

<b>Directors</b>	<b>Capacity</b>	<b>Note</b>	<b>Number of underlying shares held</b>	<b>Approximate percentage of the Company's existing share capital</b>
Edward TIAN Suning	Beneficial owner	1	20,000,000	0.11%
ZHAO Anjian	Beneficial owner		60,000,000	0.33%
ZHANG Changsheng	Beneficial owner		10,000,000	0.06%
JIANG Jianning	Beneficial owner		10,000,000	0.06%
LI Ruigang	Beneficial owner		10,000,000	0.06%
YUEN Kin	Beneficial owner		10,000,000	0.06%
WONG Yau Kar David	Beneficial owner		10,000,000	0.06%

### **Chief Executive Officer**

WANG Hong	Beneficial owner		50,000,000	0.28%
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## OTHER INFORMATION

*Note 1:* CBC China Media Limited (formerly Speedy Swift Investments Limited) is controlled by China Broadband Capital Partners, L.P., and Mr. Edward TIAN Suning is the chairman and non-executive director of the Company and the director of CBC China Media Limited. Mr. Tian is deemed to be interested in CBC China Media Limited. As at 30th June 2008, through CBC China Media Limited, Mr. Tian held (i) 3,400,000,000 shares and (ii) convertible notes of the Company due 2010 with a principal amount of HK\$49,000,000 which were convertible into 1,000,000,000 shares (subject to adjustments). Out of the 930,000,000 outstanding share options, Mr. Tian held 20,000,000 units of share options of the Company which are convertible into 20,000,000 shares upon conversion in full.

Save as disclosed above, as at 30th June 2008, none of the directors, the chief executives (including their spouses and children under 18 years of age) or their associates had any other beneficial interests in the shares of the Company or any of its associated corporations (within the meaning of the SFO).

At no time during the period was the Company, its subsidiaries, its associated companies, its fellow subsidiaries or its parent company a party to any arrangement to enable the directors and chief executives of the Company (including their spouse and children under 18 years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporation.

## OTHER INFORMATION

### SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that as at 30th June 2008, in addition to those disclosed under the section "Directors' and Chief Executives' interests in Shares, Underlying Shares and Debentures of the Company or any Associated Corporation" above, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital:

(i) Long positions in the shares of the Company:

Name of the Shareholders	Capacity	Note	Number of shares held	Approximate percentage of the Company's issued share capital
CBC China Media Limited (formerly Speedy Swift Investments Limited)	Beneficial owner	2	3,400,000,000	18.77%
Milo Investments International Limited	Beneficial owner	3	994,784,673	5.49%
Dong Ping	Beneficial owner		984,350,000	5.43%
Selamead Holdings Limited	Beneficial owner	4	2,100,000,000	11.59%

## OTHER INFORMATION

- (ii) Long positions in the underlying shares of the Company — convertible notes:

Names of the holder of the convertible notes	Note	Amount of the convertible notes	Number of the total underlying shares
CBC China Media Limited (formerly Speedy Swift Investments Limited)	2	HK\$49,000,000	1,000,000,000

*Notes:*

- CBC China Media Limited (formerly Speedy Swift Investments Limited) is controlled by China Broadband Capital Partners, L.P., and Mr. Edward TIAN Suning is the chairman and non-executive director of the Company and the director of CBC China Media Limited. Mr. Tian is deemed to be interested in CBC China Media Limited. As at 30th June 2008, CBC China Media Limited held (i) 3,400,000,000 shares; and (ii) convertible notes of the Company due 2010 with a principal amount of HK\$49,000,000 which were convertible into 1,000,000,000 shares (subject to adjustments).
- Milo Investments International Limited is a corporation controlled by Mr. Cheng Shiqing.
- The 2,100,000,000 Shares is the maximum number of Shares to be issued by the Company to Selamead Holdings Limited pursuant to the share purchase agreement dated 31 March 2008.

As at 30th June 2008, save as disclosed under the section “Directors’ and Chief Executives’ interests in the Shares, Underlying Shares and Debentures of the Company or any Associated Corporation” above, no other person had registered any substantial shareholders’ interests, being 5% or more of the Company’s issued share capital under Section 336 of the SFO.

## SHARE OPTIONS

Please refer to note 14 to the condensed interim financial information for details of the share options of the Company.

## OTHER INFORMATION

### CORPORATE GOVERNANCE

Throughout the six months ended 30th June 2008, the Board has reviewed the Group's corporate governance practices and is satisfied that the Company has complied with the code provisions in the Code on Corporate Governance Practices ("the Code") set out in Appendix to the Listing Rules.

### MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all Directors of the Company have confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30th June 2008.

### AUDIT COMMITTEE

The Audit Committee comprises of three Independent Non-executive Directors, Mr. Li Ruigang, Mr. Yuen Kin and Dr. Wong Yau Kar, David. Mr. Yuen Kin is the Chairman of the Audit Committee. The Audit Committee has adopted terms of reference which are in line with the Code of Best Practice and the Corporate Governance Code. The Group's unaudited condensed interim financial information for the six months ended 30th June 2008 have been reviewed by the Audit Committee, who is of the opinion that such statements comply with the applicable accounting standard and legal requirements, and that adequate disclosures have been made.

### APPRECIATION

On behalf of the Board of Directors, I would like to take this opportunity to express our gratitude and appreciation to all management and staff members for their dedication, contributions and hard work for the period.

By Order of the Board

**Edward Tian Suning**  
*Chairman*

# CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30th June 2008

		<b>Six months ended 30th June</b>	
		<b>2008</b>	2007
		<b>(Unaudited)</b>	(Unaudited)
Notes		<b>HK\$'000</b>	HK\$'000
	Sales	<b>81,180</b>	111,312
	Cost of sales	<b>(99,557)</b>	(101,723)
	Gross (loss)/profit	<b>(18,377)</b>	9,589
	Other revenues	<b>8,460</b>	10,596
	Marketing and selling expenses	<b>(13,540)</b>	(15,077)
	Administrative expenses	<b>(18,516)</b>	(12,652)
	Share of profit of jointly controlled entities ("JCE")	<b>7,731</b>	3,814
	Finance costs	<b>(34,242)</b>	(3,730)
	Fair value loss on investment in preference shares	<b>(21,913)</b>	(25,161)
		<b>—</b>	(30,708)
	Loss before taxation	<b>(56,155)</b>	(59,599)
	Taxation	<b>8,747</b>	10,810
	Loss for the period	<b>(47,408)</b>	(48,789)
	Attributable to:		
	Equity holders of the Company	<b>(47,408)</b>	(48,789)
	Minority interests	<b>—</b>	—
		<b>(47,408)</b>	(48,789)
	Earnings per share for loss attributable to the equity holders of the Company	<b>HK Cents</b>	HK Cents
	— Basic	<b>(0.278)</b>	(0.364)
	— Diluted	<b>N/A</b>	N/A

The notes on pages 20 to 41 form an integral part of this condensed consolidated interim financial information.



# CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

At 30th June 2008

	Notes	30th June 2008 (Unaudited) HK\$'000	31st December 2007 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	11	8,161	8,759
Intangible assets	11	1,239,341	1,296,322
Interest in jointly controlled entities and its subsidiaries	12	262,667	240,532
Deferred tax assets		51,683	34,629
		<b>1,561,852</b>	<b>1,580,242</b>
<b>CURRENTS ASSETS</b>			
Trade receivables	13	62,627	77,711
Due from a jointly controlled entity and its subsidiaries	12	125,315	108,712
Financial asset at fair value through profit or loss		18,354	20,538
Prepayments, deposits and other receivables		74,513	49,483
Pledged bank deposit		35,493	33,983
Cash and bank balances		289,347	131,305
		<b>605,649</b>	<b>421,732</b>
<b>CURRENT LIABILITIES</b>			
Agency fee payable – current		364,063	317,809
Other payables and accrued liabilities		41,426	30,204
Current income tax liabilities		28,366	26,594
Loans		34,123	32,332
		<b>467,978</b>	<b>406,939</b>
<b>NET CURRENT ASSETS</b>		<b>137,671</b>	<b>14,793</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,699,523</b>	<b>1,595,035</b>

# CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

At 30th June 2008

	30th June 2008 (Unaudited) HK\$'000	31st December 2007 (Audited) HK\$'000
Notes		
<b>NON-CURRENT LIABILITIES</b>		
Agency fee payable – non-current	514,600	573,603
Convertible notes	42,559	40,931
Deferred tax liabilities	10,823	4,583
	<b>567,982</b>	619,117
<b>NET ASSETS</b>	<b>1,131,541</b>	975,918
<b>EQUITY</b>		
Capital and reserves attributable to the equity holders of the Company		
Issued capital	181,182	162,182
Reserves	949,780	813,736
	<b>1,130,962</b>	975,918
Minority interests	579	–
<b>TOTAL EQUITY</b>	<b>1,131,541</b>	975,918

The notes on pages 20 to 41 form an integral part of this condensed consolidated interim financial information.

# CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

*For the six months ended 30th June 2008*

	<b>Six months ended 30th June</b>	
	<b>2008</b>	2007
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	<b>HK\$'000</b>
Net cash (outflow)/inflow from operating activities	<b>(39,751)</b>	7,376
Net cash inflow from investing activities	<b>9,939</b>	54,435
Net cash inflow from financing activities	<b>186,781</b>	40,936
Increase in cash and cash equivalents	<b>156,969</b>	102,747
Cash and cash equivalents at 1st January	<b>131,305</b>	13,447
Exchange gain on cash and cash equivalents	<b>1,073</b>	1,094
Cash and cash equivalents at 30th June	<b>289,347</b>	117,288

The notes on pages 20 to 41 form an integral part of this condensed consolidated interim financial information.

# CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2008

	Ordinary share capital	Share premium	Merger reserve	Share option reserve	Equity component of convertible notes	Currency translation reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2008	162,182	727,752	860,640	–	56,523	(1,310)	(829,869)	975,918
Issue of shares – exercise of warrants	19,000	169,291	–	–	–	–	–	188,291
Issue of share options	–	–	–	20,876	–	–	–	20,876
Currency translation differences	–	–	–	–	–	(6,715)	–	(6,715)
Net loss for the period	–	–	–	–	–	–	(47,408)	(47,408)
At 30th June 2008	181,182	897,043	860,640	20,876	56,523	(8,025)	(877,277)	1,130,962

	Ordinary share capital	Share premium	Merger reserve	Available for sale investment	Equity component of convertible notes	Currency translation reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2007	120,386	325,371	860,640	120	181,000	1,017	(748,589)	739,945
Issue of shares – placement	5,000	29,037	–	–	–	–	–	34,037
Conversion of convertible notes	22,022	187,597	–	–	(124,477)	–	–	85,142
Issue of shares – exercise of share options	2,774	12,206	–	–	–	–	–	14,980
Revaluation of available for sale investment	–	–	–	(120)	–	–	–	(120)
Currency translation differences	–	–	–	–	–	(253)	–	(253)
Net loss for the period	–	–	–	–	–	–	(48,789)	(48,789)
At 30th June 2007	150,182	554,211	860,640	–	56,523	764	(797,378)	824,942

The notes on pages 20 to 41 form an integral part of this condensed consolidated interim financial information.

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 1. GENERAL INFORMATION

Asian Union New Media (Group) Limited (“the Company”) and its subsidiaries (together, “the Group”) were principally engaged in the television advertising business and film and TV dramas business. The Group has operations mainly in the People’s Republic of China (the “PRC”) and Hong Kong.

The Company is incorporated in the Cayman Islands as an exempted company with limited liability on 27th May 2002 under the Company Law (2002 Revision) (Cap. 22) of the Cayman Islands. The Company’s registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is listed on The Stock Exchange of Hong Kong Limited.

This condensed consolidated interim financial information was approved for issue on 22nd September 2008.

## 2. BASIS OF PREPARATION

The condensed consolidated interim financial information for the six months ended 30th June 2008 has been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and HKAS 34, “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The interim condensed financial information should be read in conjunction with the annual financial statements for the year ended 31st December 2007.

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 3. ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31st December 2007, as described in the annual financial statements for the year ended 31st December 2007.

The HKICPA has issued a number of new and revised HKFRSs that are first effective or available for early adoption for accounting periods beginning on or after 1 January 2008. The adoption of these new HKFRSs would not have a significant impact on the Group's financial position and results of operations, except for the adoption of the amendments to HKAS 1 "Presentation of financial statements: Capital disclosures" and HKFRS 7 "Financial instruments: Disclosures" which require additional disclosures to be made in the 2008 annual financial statements.

## 4. SEGMENT INFORMATION

### **Primary reporting format – Business Segment**

At 30th June 2008, the Group is organized into two main business segments: (i) television advertising business; and (ii) film and TV dramas business. Other Group operations mainly comprise the trading of investment securities which does not constitute a separately reportable segment for the period under review.

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 4. SEGMENT INFORMATION *(Continued)*

### Primary reporting format – Business Segment *(Continued)*

The segment results for the six months ended 30th June 2008 are as follows:

	Television Advertising	Film and TV Dramas	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenues	80,654	526	–	81,180
Segment results	(38,036)	(248)	(1,943)	(40,227)
Interest income on loan from JCE				9,652
Exchange gain				23,637
Stock option expenses				(20,876)
Share of profit of jointly controlled entities				7,731
Unallocated costs				(14,159)
				(34,242)

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 4. SEGMENT INFORMATION *(Continued)*

### Primary reporting format — Business Segment *(Continued)*

The segment results for the six months ended 30th June 2007 are as follows:

	Television Advertising HK\$'000	Film and TV Dramas HK\$'000	Others HK\$'000	Total HK\$'000
Revenues	64,580	39,220	7,512	111,312
Segment results	(41,281)	26,468	2,057	(12,756)
Interest income on loan from JCE				4,725
Exchange gain				4,511
Share of profit of jointly controlled entities				3,814
Unallocated costs				(4,024)
				(3,730)



# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 4. SEGMENT INFORMATION *(Continued)*

### Primary reporting format – Business Segment *(Continued)*

Other segment terms included in the income statement and capital expenditures for the period are as follows:

Six months ended 30th June 2008				
	Television Advertising	Film and TV Dramas	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital expenditures				
– Allocated	71	2,165	–	2,236
– Unallocated				568
Depreciation				
– Allocated	323	173	–	496
– Unallocated				605
Amortization	92,198	–	–	92,198

Six months ended 30th June 2007				
	Television Advertising	Film and TV Dramas	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital expenditures				
– Allocated	140	8,222	15	8,377
– Unallocated				568
Depreciation				
– Allocated	331	151	13	495
– Unallocated				236
Amortization	84,869	7,992	–	92,861

There are no sales or other transactions between the business segments. Unallocated costs represent corporate expenses.

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 4. SEGMENT INFORMATION *(Continued)*

### Primary reporting format – Business Segment *(Continued)*

The segment assets and liabilities at 30th June 2008 are as follows:

	Television Advertising	Film and TV Dramas	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	771,750	135,970	18,976	926,696
Goodwill				497,375
Investment in a jointly controlled entity				
– current				125,315
– non-current				262,667
Unallocated assets				355,448
Total assets				2,167,501
Segment liabilities	928,049	62,996	–	991,045
Unallocated liabilities				44,915
Total liabilities				1,035,960

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 4. SEGMENT INFORMATION *(Continued)*

### Primary reporting format — Business Segment *(Continued)*

The segment assets and liabilities at 31st December 2007 are as follows:

	Television Advertising HK\$'000	Film and TV Dramas HK\$'000	Others HK\$'000	Group HK\$'000
Segment Assets	813,073	164,576	21,049	998,698
Goodwill				496,379
Investment in jointly controlled entities				
— current				108,712
— non-current				240,532
Unallocated assets				157,653
Total assets				2,001,974
Segment liabilities	928,622	54,034	—	982,656
Unallocated liabilities				43,400
				1,026,056

Segment assets consist primarily of tangible and intangible assets, other non-current assets, receivables and operating cash. They exclude financial assets at fair value through profit and loss, and cash and cash equivalents for the corporate use.

Segment liabilities comprise operating liabilities including payable and accrued liabilities. They exclude items such as convertible note.

Capital expenditure comprises additions to property, plant and equipment and intangible assets, including additions resulting from acquisitions through business combination.

The Group's two business segments both operate in the PRC. No geographical segment information is presented.

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 5. OTHER REVENUES

	<b>Six months ended 30th June</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	<i>HK\$'000</i>
Preference dividend income	—	2,906
Unrealized (loss)/gain on securities	<b>(2,184)</b>	2,073
Interest income	<b>10,398</b>	5,357
Dividend income	<b>246</b>	—
Miscellaneous	—	260
	<b>8,460</b>	10,596

## 6. LOSS BEFORE TAXATION

Loss before taxation is stated after charging the following:

	<b>Six months ended 30th June</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	<i>HK\$'000</i>
Depreciation	<b>1,101</b>	731
Amortization	<b>92,198</b>	92,861
Stock option expense	<b>20,876</b>	—
Staff costs:		
Wages and salaries	<b>8,204</b>	6,486
Contributions to defined contribution pension scheme	<b>255</b>	408

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 7. FINANCE COSTS

	Six months ended 30th June	
	2008 HK\$'000	2007 HK\$'000
Interest expenses on:		
– Bank loans repayable within 12 months	1,076	509
	<b>1,076</b>	509
Notional non-cash interest accretion:		
– Convertible note	1,629	3,260
– Pre-agreed periodic payments on exclusive advertising agency right	19,208	21,392
	<b>20,837</b>	24,652
	<b>21,913</b>	25,161

## 8. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2007: 17.5%) on the estimated assessable profit of the period. Taxation on profits outside Hong Kong has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the regions/countries in which the Group operates.

	Six months ended 30th June	
	2008 HK\$'000	2007 HK\$'000
Current income tax		
– Hong Kong profits tax	–	–
– Overseas taxation	–	149
Deferred income tax	<b>(8,747)</b>	(10,959)
	<b>(8,747)</b>	(10,810)

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 8. TAXATION *(Continued)*

The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the weighted average tax rate applicable to (losses)/profits of the consolidated entities as follows:

	<b>Six months ended 30th June</b>	
	<b>2008</b> <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Loss before taxation	<b>(56,155)</b>	(59,599)
Tax calculated at domestic tax rates applicable to profits in the respective countries/regions	<b>(11,645)</b>	(20,059)
Income not subject to taxation	<b>(1,934)</b>	(509)
Expenses not deductible for taxation purposes	<b>182</b>	6,231
Utilization of previously unrecognized tax losses	<b>—</b>	(5,719)
Unrecognized tax losses	<b>4,650</b>	1,789
Effect on deferred taxation arising from change in statutory tax rate	<b>—</b>	7,457
Taxation charge	<b>(8,747)</b>	(10,810)

The weighted average applicable tax rate was 20.74% (2007: 33.66%). The decrease is mainly caused by the decrease of statutory tax rate of the Group's subsidiaries in the PRC from 33% to 25% since 1st January 2008.

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 9. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30th June 2008 is based on the net loss attributable to shareholders of HK\$47,408,000 (2007: net loss of HK\$48,789,000) and the weighted average number of 17,053,410,148 (2007: 13,389,413,913) ordinary shares deemed to have been in issue during the period.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As at 30th June 2008, the Company has only two categories of potential ordinary shares: share options and convertible notes. The convertible notes are assumed to have been converted into ordinary shares, and the net loss is adjusted to eliminate the interest expense less the tax effect. For the share options, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's share during the period) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

The conversion of all potential ordinary shares arising from convertible notes and share options would have an anti-dilutive effect on the earnings per share for the period ended 30th June 2008.

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 10. DIVIDENDS

The directors do not recommend the payment of any dividend in respect of the six months ended 30th June 2008 (2007: nil).

## 11. CAPITAL EXPENDITURE

### (i) Property, plant and equipment

#### Six months ended 30th June 2008

	<i>HK\$'000</i>
Opening net book amount 1st January 2008	8,759
Additions	696
Disposal	(477)
Depreciation	(1,101)
Exchange difference	284
Closing net book amount 30th June 2008	<u>8,161</u>

#### Six months ended 30th June 2007

	<i>HK\$'000</i>
Opening net book amount 1st January 2007	7,057
Additions	763
Disposal	(33)
Disposal of subsidiaries	(1,618)
Depreciation	(731)
Exchange difference	102
Closing net book amount 30th June 2007	<u>5,540</u>



# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 11. CAPITAL EXPENDITURE (Continued)

### (ii) Intangible assets

Six months ended 30th June 2008	Exclusive	Programmes	Programmes	Total	
	Advertising	and film	and films		
	Agency	and film	production		
	Right	rights	in progress		
	Goodwill				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Opening net book amount					
1st January 2008	496,379	719,263	49,656	31,024	1,296,322
Addition	746	—	2,108	—	2,854
Disposal	—	—	—	(11,016)	(11,016)
Amortization charge	—	(92,198)	—	—	(92,198)
Exchange difference	250	39,321	2,341	1,467	43,379
Closing net book amount					
30th June 2008	497,375	666,386	54,105	21,475	1,239,341
At 30th June 2008					
Cost	497,375	1,142,376	84,181	21,475	1,745,407
Accumulated amortization and impairment	—	(475,990)	(30,076)	—	(506,066)
Net book amount	497,375	666,386	54,105	21,475	1,239,341

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 11. CAPITAL EXPENDITURE (Continued)

### (ii) Intangible assets (Continued)

Six months ended	Goodwill	Exclusive Advertising Agency Right	Programmes and film rights	Programmes and films production in progress	Total
30th June 2007	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Opening net book amount					
1st January 2007	496,084	836,952	37,976	43,057	1,414,069
Addition	—	—	5,140	3,042	8,182
Amortization charge	—	(84,869)	(7,992)	—	(92,861)
Exchange difference	80	16,350	564	886	17,880
Closing net book amount					
30th June 2007	496,164	768,433	35,688	46,985	1,347,270
At 30th June 2007					
Cost	496,164	1,024,577	61,676	46,985	1,629,402
Accumulated amortization and impairment	—	(256,144)	(25,988)	—	(282,132)
Net book amount	496,164	768,433	35,688	46,985	1,347,270

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 12. INTERESTS IN A JOINTLY CONTROLLED ENTITY AND AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY AND ITS SUBSIDIARIES

	30th June 2008 <i>HK\$'000</i>	31st December 2007 <i>HK\$'000</i>
Share of net assets	11,757	3,565
Loan to a jointly controlled entity	250,910	236,967
	<b>262,667</b>	240,532

The loan to a jointly controlled entity is unsecured, interest-bearing at prevailing market rates and not repayable in the coming twelve months.

The current portion of the amount due from a jointly controlled entity and its subsidiaries is unsecured, interest-bearing at prevailing market rates and has no fixed repayment terms.

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 12. INTERESTS IN A JOINTLY CONTROLLED ENTITY AND AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY AND ITS SUBSIDIARIES (Continued)

The principal jointly controlled entity companies at 30th June 2008 are as follows:

Name	Place of incorporation and kind of legal entity	Nominal value of issued ordinary share/preference share/registered capital	Effective Interest held indirectly	Principal activities and place of operation
(1) AUFM Group				
Asia Union Film and Media (*)	The PRC, limited liability company	RMB120,000,000	50.00%	Investment in television drama, film production and advertising production in the PRC
Hai Nan Haishi Travel Satellite TV Media Co., Ltd. (*)	The PRC, limited liability company	RMB115,963,100	24.50%	Production of television programmes (other than news) for the Travel Channel in the PRC
Beijing Ying Shi Film & Television Art Limited Liability Company (*)	The PRC, limited liability company	RMB500,000	30.00%	Television drama production in the PRC
Beijing Hua Yi Shan He Shui Advertising Company Limited (*)	The PRC, limited liability company	RMB1,020,000	25.50%	Advertisement production in the PRC
(2) 上海艾普華德廣告有限公司	The PRC, limited liability company	RMB1,000,000	50.00%	Advertising agency in the PRC

(\*) *The names of the companies referred to above represent management's best effort in translating the Chinese names of the companies as no English names for these companies have been registered.*

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 12. INTERESTS IN A JOINTLY CONTROLLED ENTITY AND AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY AND ITS SUBSIDIARIES (Continued)

The consolidated results and financial position of the AUFM Group at 30th June 2008 were as follows:

	30th June 2008 <i>HK\$'000</i>	31st December 2007 <i>HK\$'000</i>
Assets:		
Non-current assets	401,283	359,941
Current assets	21,342	20,873
	<b>422,625</b>	380,814
Liabilities:		
Current liabilities	(416,472)	(384,850)
Long-term liabilities	(80,943)	(76,650)
	<b>(497,415)</b>	(461,500)
Net liabilities	<b>(74,790)</b>	(80,686)

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 12. INTERESTS IN A JOINTLY CONTROLLED ENTITY AND AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY AND ITS SUBSIDIARIES (Continued)

	Six months ended 30th June	
	2008 HK\$'000	2007 HK\$'000
Income	5,769	5,505
Share of profit of an associated company	20,724	20,212
Expenses	(16,185)	(17,076)
Profit for the period	10,308	8,641

## 13. TRADE RECEIVABLES

At 30th June 2008, the ageing analysis of the trade receivables is as follows:

	30th June 2008 HK\$'000	31st December 2007 HK\$'000
0 – 3 months	15,391	46,886
4 – 6 months	51	1,812
Over 6 months	70,212	56,665
Provision for doubtful debts	85,654 (23,027)	105,363 (27,652)
	62,627	77,711

The Group generally requires customers to pay in advance, but grants a credit period of 30 days to 90 days to certain customers.

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 14. SHARE CAPITAL

	Ordinary shares of HK\$0.01 each		Preference shares of HK\$0.01 each		Total Amount
	No. of shares (‘000)	HK\$‘000	No. of shares (‘000)	HK\$‘000	HK\$‘000
Authorized:					
At 30th June 2008/ 31st December 2007	30,000,000	300,000	240,760	2,408	302,408
Issued and fully paid:					
At 1st January 2008	16,218,246	162,182	—	—	162,182
Issue of shares — exercise of warrants	1,900,000	19,000	—	—	19,000
At 30th June 2008	18,118,246	181,182	—	—	181,182
At 1st January 2007	12,038,611	120,386	—	—	120,386
Issue of shares — placement	500,000	5,000	—	—	5,000
Conversion of convertible notes	2,202,235	22,022	—	—	22,022
Issue of shares — exercise of share options	277,400	2,774	—	—	2,774
At 30th June 2007	15,018,246	150,182	—	—	150,182

### Convertible Note

There was no conversion of the Second Tranche Convertible Note during the period. The remaining part of the outstanding convertible note as at 30th June 2008 is convertible into 1,000,000,000 ordinary shares of the Company.

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 14. SHARE CAPITAL *(Continued)*

### Share Option

Pursuant to the 10-year term share option scheme (“Option Scheme”) adopted by the Company on 30th July 2002, the Company can grant options to Qualified Persons (as defined in the Option Scheme) for a consideration of HK\$1.00 for each grant payable by the Qualified Persons to the Company. The total number of the shares issued and to be issued upon exercise of options granted to each Qualified Person (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the shares then in issue. Pursuant to a resolution passed on the annual general meeting of the Company, dated 10th June 2008, the Company can grant up to 1,811,824,531 share options to the Qualified Persons.

Subscription price in relation to each option pursuant to the Option Scheme shall not be less than the higher of (i) the closing price of the shares as stated in Stock Exchange’s daily quotation sheets on the date on which the option is offered to a Qualified Person; or (ii) the average of the closing prices of the shares as stated in the Stock Exchange’s daily quotation sheets for the 5 trading days immediately preceding the date of offer; or (iii) the nominal value of the shares of the Company. There shall be no minimum holding period for the vesting or exercise of the options and the options are exercisable within the option period as determined by the Board of directors of the Company. During the period, share-based compensation of HK\$20,876,000 is charged to the consolidated income statement (2007: Nil).



# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 14. SHARE CAPITAL (Continued)

### Share Option (Continued)

Movement of share options during the period:

Date of share options granted	Number of share options outstanding as at 1st January 2008	Number of share options granted during the period	Number of share options cancelled/ lapsed during the period	Number of share options exercised during the period	Number of share options outstanding as at 30th June 2008	Vesting Date	Expiry Date	Exercise price per share
7/3/2008	-	800,000,000	-	-	800,000,000	30/4/2008-8/3/2011	31/12/2015	0.154
5/5/2008	-	130,000,000	-	-	130,000,000	1/4/2009	31/12/2015	0.134
	-	930,000,000	-	-	930,000,000			

## 15. COMMITMENTS

At 30th June 2008, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	30th June 2008 HK\$'000	31st December 2007 HK\$'000
Land and building:		
Not later than one year	5,130	5,198
Later than one year and not later than five years	4,692	7,252
	9,822	12,450

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 16. RELATED PARTY TRANSACTIONS

Saved as disclosed elsewhere in this condensed consolidated financial information, significant transactions with related parties during the period are as follows:

	<b>Six months ended 30th June</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Interest income from a jointly controlled entity	<b>9,652</b>	4,725

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

*Chairman*

Mr. Edward Tian Suning  
*(Non-executive Director)*

*Vice Chairman*

Mr. Zhang Changsheng  
*(Independent Non-executive Director)*

*Executive Director*

Mr. Zhao Anjian

*Independent non-executive Directors*

Mr. Jiang Jianning  
Mr. Li Ruigang  
Dr. Wong Yau Kar, David  
Mr. Yuen Kin

## COMPANY SECRETARY

Mr. Hau Wai Man, Raymond

## QUALIFIED ACCOUNTANT

Mr. Hau Wai Man, Raymond

## INDEPENDENT AUDITOR

PricewaterhouseCoopers  
*Certified Public Accountants*

## PRINCIPAL BANKER

Hang Seng Bank  
DBS Bank

## SOLICITORS

The Linklaters  
Commerce & Finance Law Offices

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## PRINCIPAL OFFICE IN HONG KONG

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