

Leadership Publishing Group Limited

2003 / 2004 INTERIM REPORT

singpao.com



Sing Pao



現代旌旗出版集團有限公司
Leadership Publishing Group Ltd.

Wide Angle



Characteristics of The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (“directors”) of Leadership Publishing Group Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Leadership Publishing Group Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HALF-YEARLY RESULTS

The unaudited consolidated results of Leadership Publishing Group Limited (the “Company” or “Leadership Publishing”) and its subsidiaries (together, the “Group”) for the three months and six months ended 30 September, 2003, together with the comparative unaudited figures for the corresponding periods in 2002 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

| | Notes | Three months ended | | Six months ended | |
|--|-------|--------------------|----------|------------------|-----------|
| | | 30 September, | | 30 September, | |
| | | 2003 | 2002 | 2003 | 2002 |
| | | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Turnover | 3 | 30,032 | 47,106 | 58,713 | 91,107 |
| Cost of sales | | (37,562) | (53,136) | (75,323) | (105,301) |
| Gross loss | | (7,530) | (6,030) | (16,610) | (14,194) |
| Other revenue | | 1,846 | 1,196 | 2,394 | 2,458 |
| Advertising and promotion expenses | | (1,335) | (6,652) | (3,460) | (9,681) |
| Administrative expenses | | (11,654) | (20,628) | (23,032) | (40,739) |
| Unrealized loss recognised in respect of investments in securities | | (167) | (2,049) | - | (4,533) |
| Impairment loss reversed in respect of prepaid airtime | | 6,000 | - | 6,000 | - |
| Loss from operations | 4 | (12,840) | (34,163) | (34,708) | (66,689) |
| Finance costs | 5 | (959) | (2,704) | (1,916) | (5,084) |
| Loss on disposal of a subsidiary | 12 | (7,539) | - | (7,539) | - |
| Share of results of associates | | (79) | (322) | (79) | (499) |
| Taxation | 6 | - | - | - | - |
| Minority interests | | - | - | - | - |
| Net loss for the period | | (21,417) | (37,189) | (44,242) | (72,272) |
| Loss per share (HK cents) | 7 | (4.0) | (14.2) | (8.5) | (30.5) |

CONDENSED CONSOLIDATED BALANCE SHEET

| | | As at 30 September, 2003 HK\$'000 (unaudited) | As at 31 March, 2003 HK\$'000 (audited) |
|---|-------|---|---|
| | Notes | | |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 8 | 83,317 | 95,572 |
| Interest in an associate | | 3,712 | – |
| Investments in securities | | 1,333 | 1,333 |
| Pledged deposit placed with a finance company | | 5,000 | 5,000 |
| | | <u>93,362</u> | <u>101,905</u> |
| CURRENT ASSETS | | | |
| Inventories | | 1,564 | 1,518 |
| Trade and other receivables | 9 | 30,800 | 23,495 |
| Prepaid airtime | | 28,214 | 23,649 |
| Bank balances and cash | | 15,698 | 40,008 |
| | | <u>76,276</u> | <u>88,670</u> |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 10 | 16,166 | 25,927 |
| Payables to fellow subsidiaries | | 847 | 551 |
| Obligations under finance leases – due within one year | | 8,321 | 7,613 |
| | | <u>25,334</u> | <u>34,091</u> |
| NET CURRENT ASSETS | | | |
| | | <u>50,942</u> | <u>54,579</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | |
| | | <u>144,304</u> | <u>156,484</u> |
| NON-CURRENT LIABILITIES | | | |
| Obligations under finance leases – due after one year | | 6,681 | 9,790 |
| Loan from ultimate holding company | | 41,364 | 40,362 |
| Other loans | | 20,684 | 20,181 |
| | | <u>68,729</u> | <u>70,333</u> |
| | | <u>75,575</u> | <u>86,151</u> |
| CAPITAL AND RESERVES | | | |
| Share capital | 11 | 27,556 | 23,421 |
| Reserves | | 48,019 | 62,730 |
| | | <u>75,575</u> | <u>86,151</u> |

CONDENSED STATEMENT OF CHANGES IN EQUITY

| | Share capital HK\$'000 | Share premium HK\$'000 | Shareholders' contribution HK\$'000 | Merger reserve HK\$'000 | Exchange reserve HK\$'000 | Distributable reserve HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 |
|--|------------------------------|------------------------------|---|-------------------------------|---------------------------------|--------------------------------------|-----------------------------------|-------------------|
| At 1 April, 2002 | 416,377 | 118,260 | - | 121,914 | 2,773 | - | (403,168) | 256,156 |
| Capital reduction and share premium | (405,968) | (110,000) | - | - | - | 93,215 | 422,753 | - |
| Rights issue of shares | 13,012 | 91,083 | - | - | - | - | - | 104,095 |
| Share issue expenses | - | (2,721) | - | - | - | - | - | (2,721) |
| Exchange differences arising from translation of accounts of overseas operations | - | - | - | - | (7) | - | - | (7) |
| Net loss for the period | - | - | - | - | - | - | (72,272) | (72,272) |
| At 30 September, 2002 | <u>23,421</u> | <u>96,622</u> | <u>-</u> | <u>121,914</u> | <u>2,766</u> | <u>93,215</u> | <u>(52,687)</u> | <u>285,251</u> |
| At 31 March, 2003 and 1 April, 2003 | 23,421 | 96,645 | 72,894 | 121,914 | 2,212 | 231,340 | (462,275) | 86,151 |
| Subscription of shares | 4,135 | 29,599 | - | - | - | - | - | 33,734 |
| Share issue expenses | - | (160) | - | - | - | - | - | (160) |
| Reserve released on disposal of a subsidiary | - | - | - | - | 92 | - | - | 92 |
| Net loss for the period | - | - | - | - | - | - | (44,242) | (44,242) |
| At 30 September, 2003 | <u>27,556</u> | <u>126,084</u> | <u>72,894</u> | <u>121,914</u> | <u>2,304</u> | <u>231,340</u> | <u>(506,517)</u> | <u>75,575</u> |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

| | For the six months ended | |
|--|---------------------------------|-----------------|
| | 30 September, | |
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| NET CASH USED IN OPERATING ACTIVITIES | (42,972) | (43,166) |
| NET CASH USED IN INVESTING ACTIVITIES | (10,553) | (1,366) |
| NET CASH FROM FINANCING ACTIVITIES | 29,215 | 108,402 |
| NET CASH (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | (24,310) | 63,870 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD | 40,008 | 24,163 |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD | 15,698 | 88,033 |

Notes:

1. Basis of preparation and accounting policies

The unaudited condensed financial statements have been prepared in accordance with the Statement of Standard Accounting Practice ("SSAP") 25 (Revised) "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA") and the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM Listing Rules") on The Stock Exchange of Hong Kong Limited.

The accounting policies and methods of computation adopted are consistent with those followed in the preparation of the Group's financial statements for the year ended 31 March, 2003, except as described below:

In the current period, the Company has adopted SSAP 12 (Revised) "Income Taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognized in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognized in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (Revised) has not had any material effect on the results for the current or prior accounting periods.

Taxation

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognized if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2. Business and geographical segments

Business segment

For management purposes, the Group is currently organised into the following divisions. These divisions are the basis on which the Group reports its primary segment information.

An analysis of the Group's revenue and contribution to operating results and assets and liabilities by business segment is as follows:

For the six months ended 30 September, 2003

| | Newspaper and magazine business HK\$'000 | Website business HK\$'000 | Others HK\$'000 | Consolidated HK\$'000 |
|--|---|---------------------------------|--------------------|--------------------------|
| Revenue, excluding interest income | <u>80,843</u> | <u>705</u> | <u>14</u> | <u>81,562</u> |
| Segment result | (38,840) | (1,007) | (1,008) | (40,855) |
| Interest income | 88 | 59 | – | 147 |
| Finance costs | (1,218) | – | (698) | (1,916) |
| Impairment loss reversed in respect of prepaid airtime | 6,000 | – | – | 6,000 |
| Loss on disposal of a subsidiary | – | (7,539) | – | (7,539) |
| Share of results of associates | – | (79) | – | (79) |
| Net loss for the period | <u>(33,970)</u> | <u>(8,566)</u> | <u>(1,706)</u> | <u>(44,242)</u> |
| ASSETS | | | | |
| Segment assets | <u>150,725</u> | <u>3,952</u> | <u>9,916</u> | 164,593 |
| Interests in an associate | | | | 3,712 |
| Investments in securities | | | | <u>1,333</u> |
| Consolidated total assets | | | | 169,638 |
| LIABILITIES | | | | |
| Segment liabilities | <u>(15,545)</u> | <u>(893)</u> | <u>(574)</u> | (17,012) |
| Unallocated corporate liabilities | | | | <u>(77,051)</u> |
| | | | | <u>75,575</u> |
| OTHER INFORMATION | | | | |
| Capital expenditure property, plant and equipment | 1,576 | – | – | 1,576 |
| Depreciation | 9,710 | 524 | – | 10,234 |
| Impairment loss reversed in respect of prepaid airtime | <u>6,000</u> | <u>–</u> | <u>–</u> | <u>6,000</u> |

More than 90% of the Group's turnover and operating results are derived from Hong Kong during this period. Accordingly, no segmental analysis by geographical market is presented for this period.

3. Turnover

Turnover represents the aggregate of the net amounts received and receivables from third parties in respect of goods sold and services rendered and is summarised as follows:

| | Three months ended 30 September, | | Six months ended 30 September, | |
|---|-------------------------------------|------------------|-----------------------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Newspapers and magazines advertising income | 13,581 | 24,414 | 24,571 | 45,565 |
| Sales of newspapers and magazines | 16,337 | 22,250 | 33,439 | 44,286 |
| Consultancy services | – | 30 | – | 159 |
| Internet website content sales | 114 | 380 | 703 | 1,056 |
| Sales of goods, net of discounts and allowances | – | 32 | – | 41 |
| | <u>30,032</u> | <u>47,106</u> | <u>58,713</u> | <u>91,107</u> |

4. Loss from operations

| | Three months ended 30 September, | | Six months ended 30 September, | |
|---|-------------------------------------|------------------|-----------------------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Loss from operations has been arrived at after charging: | | | | |
| Amortisation of intangible assets included in administrative expenses | – | 2,633 | – | 5,267 |
| Depreciation of property, plant and equipment | <u>4,978</u> | <u>5,738</u> | <u>10,234</u> | <u>11,454</u> |

5. Finance costs

| | Three months ended | | Six months ended | |
|------------------------------------|--------------------|--------------|------------------|--------------|
| | 30 September, | | 30 September, | |
| | 2003 | 2002 | 2003 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Interests on: | | | | |
| Loan from ultimate holding company | 504 | – | 1,003 | – |
| Shareholders' loans | 255 | 2,123 | 503 | 3,872 |
| Finance leases | 200 | 288 | 410 | 617 |
| Loan from a related party | – | 293 | – | 595 |
| | <u>959</u> | <u>2,704</u> | <u>1,916</u> | <u>5,084</u> |

6. Taxation

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group has no estimated assessable profit for both periods. The Group has no estimated assessable profits in other jurisdictions for both periods.

7. Loss per share

The calculation of the basic loss per share for the three months and six months ended 30 September, 2003 is based on the respective unaudited consolidated net loss of approximately HK\$21,417,000 and HK\$44,242,000 (2002: HK\$37,189,000 and HK\$72,272,000) and the weighted average number of 538,396,251 shares and 518,901,943 shares (2002: 261,599,268 shares and 236,582,319 shares) in issue during the periods.

As required by paragraph 42 of SSAP 5 "Earnings per share", the weighted average number of ordinary shares for the purpose of calculating basic loss per share for 2003 and 2002 has been adjusted for the effect of share consolidation completed on 28 May, 2002 and rights issue completed on 17 September, 2002.

The calculation of diluted loss per share does not assume the exercise of the Company's outstanding share options as their exercise would have an anti-dilutive effect on the loss per share.

8. Property, plant and equipment

| | Land & building | Leasehold improvement | Machinery | Furniture, fixtures and equipment | Network and computer equipment | Operating equipment | Motor vehicles | Total |
|--|-----------------|-----------------------|----------------|-----------------------------------|--------------------------------|---------------------|----------------|----------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| COST | | | | | | | | |
| At 1 April, 2003 | 500 | 1,528 | 105,398 | 3,277 | 16,153 | 16 | 1,382 | 128,254 |
| Additions | - | - | - | 20 | 1,556 | - | - | 1,576 |
| Disposals | - | - | (1,470) | (20) | (7,029) | - | - | (8,519) |
| Disposal of a subsidiary | - | - | - | (101) | (3,513) | - | (184) | (3,798) |
| At 30 September, 2003 | <u>500</u> | <u>1,528</u> | <u>103,928</u> | <u>3,176</u> | <u>7,167</u> | <u>16</u> | <u>1,198</u> | <u>117,513</u> |
| DEPRECIATION, AMORTISATION AND IMPAIRMENT | | | | | | | | |
| At 1 April, 2003 | 31 | 350 | 22,368 | 988 | 8,666 | 16 | 263 | 32,682 |
| Provided during the period | 10 | 132 | 8,767 | 291 | 930 | - | 104 | 10,234 |
| Eliminated on disposals | - | - | (564) | (10) | (7,007) | - | - | (7,581) |
| Eliminated on disposal of a subsidiary | - | - | - | (40) | (1,063) | - | (36) | (1,139) |
| At 30 September, 2003 | <u>41</u> | <u>482</u> | <u>30,571</u> | <u>1,229</u> | <u>1,526</u> | <u>16</u> | <u>331</u> | <u>34,196</u> |
| NET BOOK VALUES | | | | | | | | |
| At 30 September, 2003 | <u>459</u> | <u>1,046</u> | <u>73,357</u> | <u>1,947</u> | <u>5,641</u> | <u>-</u> | <u>867</u> | <u>83,317</u> |
| At 31 March, 2003 | <u>469</u> | <u>1,178</u> | <u>83,030</u> | <u>2,289</u> | <u>7,487</u> | <u>-</u> | <u>1,119</u> | <u>95,572</u> |

The land and building is situated in Hong Kong and is held under a medium term lease.

At 30 September, 2003, included in property, plant and equipment are assets held under finance leases with net book values of approximately HK\$70,823,000.

9. Trade and other receivables

The Group allows its trade customers a credit period ranging from 30 days to 60 days. An aged analysis of the trade and other receivables is as follows:

| | As at 30 September, 2003 HK\$'000 | As at 31 March, 2003 HK\$'000 |
|-------------------|--|--|
| Zero to 30 days | 5,544 | 6,001 |
| 31 – 90 days | 8,426 | 6,766 |
| Over 90 days | <u>1,969</u> | <u>3,999</u> |
| Trade receivables | 15,939 | 16,766 |
| Other receivables | <u>14,861</u> | <u>6,729</u> |
| | <u>30,800</u> | <u>23,495</u> |

10. Trade and other payables

An aged analysis of the trade and other payables is as follows:

| | As at 30 September, 2003 HK\$'000 | As at 31 March, 2003 HK\$'000 |
|-----------------|--|--|
| Zero to 30 days | 5,825 | 8,315 |
| 31 – 90 days | 3,635 | 5,550 |
| Over 90 days | <u>1,574</u> | <u>1,479</u> |
| Trade payables | 11,034 | 15,344 |
| Other payables | <u>5,132</u> | <u>10,583</u> |
| | <u>16,166</u> | <u>25,927</u> |

11. Share capital

| | Number of shares | Amount HK\$'000 |
|---|----------------------|--------------------|
| Authorised: | | |
| Ordinary shares of HK\$0.05 each at 1 April, 2003 and 30 September, 2003 | <u>2,000,000,000</u> | <u>100,000</u> |
| Issued and fully paid: | | |
| Ordinary shares of HK\$0.05 each at 1 April, 2003 | 468,424,181 | 23,421 |
| Subscription of shares (<i>Notes a to c</i>) | <u>82,699,800</u> | <u>4,135</u> |
| Ordinary shares of HK\$0.05 each at 30 September, 2003 | <u>551,123,981</u> | <u>27,556</u> |

Notes:

- a. On 15 April, 2003, a subscription agreement was made for a placing and subscription of 50,000,000 new ordinary shares of HK\$0.05 each of the Company at a price of HK\$0.40 per share. The subscription was completed on 6 May, 2003.
- b. On 24 June, 2003, a subscription agreement was made for a placing and subscription of 25,828,000 new ordinary shares of HK\$0.05 each of the Company at a price of HK\$0.42 per share. As the amount of HK\$6,234,400 has been deposited, 14,843,800 subscription shares were allotted on 14 August, 2003. The remaining 10,984,200 subscription shares were revoked and would not be issued.
- c. On 25 June, 2003, a subscription agreement was made for a placing and subscription of 17,856,000 new ordinary shares of HK\$0.05 each of the Company at a price of HK\$0.42 per share. The subscription was completed on 30 July, 2003.

12. Disposal of a subsidiary

| | Three months ended | | Six months ended | |
|---------------------|--------------------|----------|------------------|----------|
| | 30 September, | | 30 September, | |
| | 2003 | 2002 | 2003 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Net assets disposed | 15,258 | – | 15,258 | – |
| Considerations | (7,719) | – | (7,719) | – |
| Loss on disposal | <u>7,539</u> | <u>–</u> | <u>7,539</u> | <u>–</u> |

For the three months and six months ended 30 September, 2003, the subsidiary disposed of did not have any significant impact on the Group's turnover, operating results and cash flows.

INTERIM DIVIDEND

The board of directors does not recommend the payment of an interim dividend for the six months ended 30 September, 2003 (2002:Nil).

MANAGEMENT DISCUSSION AND ANALYSIS**Analysis of the Group's performance**

For the six months ended 30 September, 2003, the Group recorded a turnover of approximately HK\$58.7 million, representing a drop of approximately 35.6% against approximately HK\$91.1 million recorded in the corresponding period last year. The drop in turnover mainly resulted from the decrease in the Group's advertising and publication income. Performance in the first quarter of the year was adversely affected by the cut back in advertising expenditure and consumer spending as a result of the economic fallout during the Severe Acute Respiratory Syndrome ("SARS") outbreak. Additionally, the further streamlining of the remaining business relating to "stareastnet.com" during the period under review also contributed to the decrease in turnover as compared to the same period last year.

However, riding on the Group's strong readership base, total income from the publication and advertising section progressively recovered to pre-SARS levels in June after the SARS fallout, with steady month-on-month growth in advertising income. At the same time, the Group also continued to implement a series of stringent cost control measures and worked hard to expand its publication and advertiser base to achieve better results.

For the six-month period ended 30 September, 2003, the Group's operating loss reduced to approximately HK\$34.7 million against approximately HK\$66.7 million in the previous corresponding period. With the management's persistent efforts to make improvements, net loss fell by approximately 38.8% to approximately HK\$44.2 million from approximately HK\$72.3 million in the previous corresponding period. The decrease in net loss was mainly due to the loss from the disposal of a subsidiary, the full write-off of intangible assets, including the goodwill of subsidiaries, and associated amortization made in the previous financial year as well as the reversal of impairment loss of HK\$6 million in respect of prepaid airtime purchased in few years ago as a result of reviewing the net book value with reference to the revised agreed terms and the term of expiry.

As at 30 September, 2003, the Group maintained a stable financial position with no short term loans, only a loan from the ultimate holding company, Sun Media Group Holdings Limited ("Sun Media"), and other loans which will only be payable on the expiry of 30 calendar months after the year end of the first profitable financial year since 24 January, 2003, the date of completion of Sun Media's acquisition of a controlling interest in the Company, provided that the payment shall not fall after the twentieth anniversary of 24 January, 2003.

Business Review and Prospects

The newspaper business – Sing Pao Daily News

Sing Pao Daily News ("Sing Pao") remained the major revenue stream and profit contributor for the Group, accounting for approximately 97.0% of total turnover during the period under review. With its strong and solid readership base, Sing Pao was able to maintain stable revenues from its newspaper sales. Unaffected by the SARS fallout, publication income from the Mainland market increased steadily. With the stringent cost control measures adopted by the management, Sing Pao achieved substantial savings with operation costs falling approximately 26.1% during the period under review as compared to the same period last year. In addition to the elimination of redundancies in the workforce, Sing Pao continued to computerize its editorial system to enhance efficiencies in newspaper production. The Group also continued to expand its publication and advertiser base to achieve better than expected operating performances.

Sing Pao launched comprehensive reforms in March 2003 to reposition itself as a healthy mass newspaper with enriched content as well as quality and layout improvements. Consequently, its readership base quickly broadened, particularly amongst the younger and more highly educated groups.

To cope with market demand, efforts were placed on content diversification to fit readers' preferences. Features improvement also offered greater convenience to readers as parts of the reforms during the period under review. New sections such as "People's Watchdog", "International Universe", "City Map", "Story", "Mainland-Taiwan Entertainment" and "Artist Feature" as well as "Hot Talk Corner", were also introduced. With long-term support from the horseracing aficionados of its horseracing section, the Group invited Mr. Brian Kan (簡炳堃), the well known racing commentator to lead the horseracing commentator team, to add further attraction to Sing Pao.

During the first half of the year, the Group undertook a number of sizable marketing campaigns to attract advertisers and strengthen its readership base. With a phenomenal response rate, Sing Pao declared these promotion campaigns a great success. These included the free distribution of cash coupons for Amoy Plaza, cash coupons for the outlying island routes of "First Ferry", free round trip jetfoil tickets between Hong Kong and Macau, tickets for movie premiers, antiseptic moisturizing hand lotion, ten-weekly sessions of a Buddhism seminar, the "Sing Pao Race Cup" at the Macau Jockey Club, a series of joint health care seminars with Yan Chai Hospital and "Best Horse-racing Commentator Award Presentation".

To target the youngsters, Sing Pao offered free gifts such as a free insert of the Champions League Preview together with posters of world-leading football stars, free match tickets for the Hong Kong Football Team vs Real Madrid as well as the Hong Kong Football Team vs Liverpool.

The magazine business – Wide Angle Magazine

As a result of the improved overall operational efficiencies of its magazine business, turnover generated from the magazine business amounted to approximately HK\$1.1 million during the period under review, accounting for approximately 1.8% of total turnover. With the provision of quality content on political and economic issues for over 30 years, the core magazine of the Group, Wide Angle Magazine has established a leading position in the PRC market. Reinforcing its competitiveness and increasing its market share in Hong Kong and the PRC, the Group will aggrandize the content of the magazine and expand its distribution channels in both markets. To enhance its market edge, the Group will also continue to capture potential publishing business opportunities.

News and entertainment websites

To align itself with the new look of Sing Pao, the website “singpao.com” was also revamped in March 2003 to enhance readability and functionality with photogenic and easy-to-use browsers. As a result of its extensive content and attractive breaking news headlines, the average daily page views for “singpao.com” grew to over 2 million during the period under review. Most readers of online newspapers were young people and non-subscribers of Sing Pao.

To strengthen its internet visitor base and cope with increasing demands, the management plans to launch a real-time horseracing news section in “singpao.com” within the current horse-racing season, aiming to provide a better service to internet users and to stand out from its competitors with exceptional and up-to-date horse-racing news in the horseracing section. The management believes that the introduction of real-time news will further consolidate the market position of “singpao.com” on the internet without incurring additional labor and operating costs for the Group. In the future, the Group will proactively implement a series of measures to attract more advertisers to its website and bring in further revenues.

Number of employees and remuneration policies

As at 30 September, 2003, the Group employed approximately 434 (2002: 575) employees. Staff costs including Mandatory Provident Fund contribution amounted to approximately HK\$49.9 million during the period under review (2002: approximately HK\$64.9 million). The Group reviews its remuneration policies regularly by ensuring that staffs are being remunerated at competitive market rates.

Corporate Developments

In line with the Group’s business strategy, “Sing Pao Media Group Limited” was renamed as “Leadership Publishing Group Limited” in April 2003. This move reflects the Group’s goal to actively expand its publishing and distribution business in the Greater China region, further strengthening its revenue base through the acquisition of companies with strong potential. Subsequent to the change in the Company’s name, Leadership Publishing will continue to focus on the development of Sing Pao Daily News, aiming to enhance its functionality and deliver diverse information to serve the needs of local readers, while also positioning Sing Pao Daily News as a healthy mass newspaper.

On 15 April, 2003, Leadership Publishing entered into a subscription agreement with an independent private investor in the PRC for an aggregate of 50,000,000 shares at a price of HK\$0.40 per subscription share, representing approximately 9.64% of the enlarged issued share capital of the Company. The net proceeds of approximately HK\$19.8 million will mainly be used to develop a third party distribution business for publishing goods, including but not limited to books, audio-visual products, electronic publishing products and magazines in the PRC, as well as serving as general working capital. The related subscription was completed on 6 May, 2003.

On 28 May, 2003, the warrants of the Company (GEM warrant code: 8353) expired at 4:00 p.m. The listing of the warrants was thereby withdrawn at the close of business on 28 May, 2003.

On 24 June and 25 June, 2003, the Group also entered into 2 other subscription agreements with 2 independent private investors in the PRC, for an aggregate of 43,684,000 shares at a price of HK\$0.42 per subscription share, representing approximately 7.77% of the thereby enlarged issued share capital of the Company. The net proceeds of approximately HK\$17.8 million will mainly be used to develop distribution business for published products in the PRC and to serve as general working capital. On 30 July, 2003, 17,856,000 subscription shares in respect of subscriptions were completed. On 14 August, 2003, 14,843,800 subscription shares out of the remaining 25,828,000 subscription shares have been subscribed for by the independent investor.

DIRECTORS' INTERESTS OR SHORT POSITIONS IN SHARES AND OPTIONS

As at 30 September, 2003, the interests or short positions of the directors and the chief executive of the Company and their respective associates 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 (a) are 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 or short positions which each of them is taken or deemed to have under such provisions of the Securities and Futures Ordinance); or (b) are required pursuant to section 352 of the Securities and Futures Ordinance, to be entered in the register referred to therein; or (c) are required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by directors, to be notified to the Company and the Stock Exchange were as follows:

Interests in shares in Sun Media (associated corporation)

| Name of directors | Type of interests | No. of shares | Approximate percentage of interest in shares to the total issued share capital of Sun Media |
|-------------------------------------|---------------------|---------------|---|
| Dr. Wu Zheng, Bruno (<i>Note</i>) | Personal and Family | 637,940,000 | 4.64% |
| Mr. Li John Zongyang | Personal | 20,000,000 | 0.15% |

Note: 30,000,000 shares are held by Dr. Wu Zheng, Bruno and 307,940,000 shares are held by Ms. Yang Lan, who is the spouse of Dr. Wu Zheng, Bruno and the chairperson of Sun Media. 300,000,000 shares are held by Excel Asia Profits Limited, of which 80% is owned by Ms. Yang Lan. Therefore, Dr. Wu Zheng, Bruno is deemed to be interested in 637,940,000 shares in Sun Media.

Interests in share options in Sun Media

| Name of directors | Date of grant | Exercise period of share options | Exercisable price (HK\$) | Number of share options outstanding as at 30/9/2003 |
|----------------------|---------------|----------------------------------|--------------------------|---|
| Dr. Wu Zheng, Bruno | 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 | 80,000,000 |
| | 27/4/2000 | 27/4/2000-26/4/2010 (Note) | 0.176 | 37,000,000 |
| | 31/1/2001 | 31/1/2001-30/1/2011 (Note) | 0.152 | 80,000,000 |
| | 4/1/2002 | 4/1/2002-3/1/2012 (Note) | 0.109 | 30,000,000 |
| Mr. Li John Zongyang | 16/9/2002 | 16/9/2002-15/9/2012 | 0.071 | 10,000,000 |
| Mr. Lin Ning | 8/8/2002 | 8/8/2002-7/8/2012 | 0.072 | 8,000,000 |
| Mr. Pao Wan Lung | 8/8/2002 | 8/8/2002-7/8/2012 | 0.072 | 8,000,000 |

Note: 147,000,000 share options have been granted to Ms. Yang Lan, who is the spouse of Dr. Wu Zheng, Bruno and the chairperson of Sun Media. Therefore, Dr. Wu Zheng, Bruno is deemed to be interested in 257,000,000 share options in Sun Media.

Interests in share options in the Company

| Name of directors | Date of grant | Exercise period of share options | Exercisable price (HK\$) | Number of share options outstanding as at 30/9/2003 |
|----------------------------|---------------|----------------------------------|--------------------------|---|
| Dr. Wu Zheng, Bruno | 13/8/2003 | 13/8/2003-12/8/2013 | 0.593 | 5,362,000 |
| Mr. Li John Zongyang | 13/8/2003 | 13/8/2003-12/8/2013 | 0.593 | 4,825,800 |
| Mr. Lin Ning | 13/8/2003 | 13/8/2003-12/8/2013 | 0.593 | 4,289,600 |
| Mr. Pao Wan Lung | 13/8/2003 | 13/8/2003-12/8/2013 | 0.593 | 4,289,600 |
| Ms. Tang Yuen Ching, Irene | 13/8/2003 | 13/8/2003-12/8/2013 | 0.593 | 2,681,000 |

None of the above options in Sun Media and the Company has been exercised during the six months ended 30 September, 2003.

Save as disclosed above and as at 30 September, 2003, none of the directors, chief executive or their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) which (a) are 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 or short positions which each of them is taken or deemed to have under such provisions of the Securities and Futures Ordinance); or (b) are required pursuant to section 352 of the Securities and Futures Ordinance, to be entered in the register referred to therein; or (c) are required pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by directors, to be notified to the Company and the Stock Exchange.

Save as disclosed above, at no time during the period was the Company, its subsidiaries or holding company a party to any arrangements to enable the directors, their spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SHARE OPTION SCHEME

On 15 January, 2002, the Company adopted the New Share Option Scheme under which the board of directors of the Company may at its discretion offer to any director (including non-executive director), executive, employee and contracted celebrity (the "Eligible Persons") of the Company and/or its subsidiaries options to subscribe for shares in the Company in accordance with the terms of the New Share Option Scheme and Chapter 23 of the GEM Listing Rules. The principal purposes of the New Share Option Scheme are to recognise the significant contributions of the Eligible Persons to the growth of the Group. The total number of shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme and any other outstanding share option schemes of the Company must not in aggregate exceed ten per cent of the issued share capital of the Company at the date of the approval of the New Share Option Scheme by the shareholders and such limit might be refreshed by the shareholders in general meeting. The New Share Option Scheme commenced on 15 January, 2002 and will end on the day immediately prior to the tenth anniversary of 15 January, 2002.

As at 30 September, 2003, options under the New Share Option Scheme comprising an aggregate of 33,244,400 underlying shares granted on 13 August, 2003 at an exercise price of HK\$0.593 each were outstanding. The option period is from 13 August, 2003 to 12 August, 2013. These options were granted to the following categories of grantees:

| Categories of grantees | Total number of grantees | Number of underlying shares comprised in the options |
|--------------------------|-----------------------------|---|
| Directors of the Company | 5 | 21,448,000 |
| Employees of the Group | 5 | <u>11,796,400</u> |
| Total | | <u><u>33,244,400</u></u> |

The fair value of the 33,244,400 options granted totalled HK\$8,046,000. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

- (1) an expected volatility of 22%;
- (2) no annual dividends; and
- (3) the estimated expected life of the options granted during the period is ten years. The corresponding ten-year Exchange Fund Notes rate at the date of the options granted was ranged at 4.68%.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price, which can materially affect the fair value estimate. Thus, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

For the purpose of the calculation of fair value, no adjustment has been made in respect of options expected to be forfeited, due to lack of historical data.

No charge is recognized in the income statement in respect of value of options granted during the period.

SUBSTANTIAL SHAREHOLDERS

As at 30 September, 2003, according to the register kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance and so far as is known to the directors, the following person had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance or were, directly or indirectly interested in 10% 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:

| Name of shareholders | Number of shares held | Approximate percentage of shareholding |
|----------------------------------|-----------------------|--|
| Sun Media (<i>Note</i>) | 351,257,794 | 63.73% |
| First Star International Limited | 258,066,231 | 46.83% |
| Peng Chi Hui | 50,000,000 | 9.07% |

Note: Among these shares, 93,191,563 shares are held by Sun Media and 258,066,231 shares are held by First Star International Limited. First Star International Limited is a wholly-owned subsidiary of Sun Media and accordingly, Sun Media is deemed to be interested in an aggregate of 351,257,794 shares.

Save as disclosed above, the directors are not aware of any other person who has interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 & 3 of Part XV of the Securities and Futures Ordinance or interests in 10% or more in the Company's issued share capital as at 30 September, 2003.

COMPETING INTERESTS

None of the directors or the management shareholders of the Company (as defined in the GEM Listing Rules) has an interest in a business which causes or may cause significant competition with the business of the Group.

BOARD PRACTICES AND PROCEDURES

The Company has complied with Rules 5.28 to 5.39 of the GEM Listing Rules concerning board practices and procedures during the six months ended 30 September, 2003.

AUDIT COMMITTEE

The audit committee has two members comprising the two independent non-executive directors, namely Mr. Ho, Cecil Te Hwai and Mr. Xu Tie Liang.

The primary duties of the audit committee are to review the Company's annual report and accounts, half-yearly reports and quarterly reports and to provide advice and comment thereon to the board of directors. The audit committee will also be responsible for reviewing and supervising the financial reporting process and internal control procedures of the Group.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September, 2003.

By Order of the Board
Wu Zheng, Bruno
Chairman

Hong Kong, 11 November, 2003