



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

Leadership Publishing Group Limited

(Incorporated in the Cayman Islands with limited liability)

Annual Report

2004

年報



Characteristics of The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “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 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 document, makes no representation as to its accuracy or completeness and expressly disclaims and liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

This annual report, for which the directors of Leadership Publishing Group Limited (the “directors”) 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 annual 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 annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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BOARD OF DIRECTORS

CUI En Qing** (*Chairman*)
LIN Ning*
XING Jing*
KWOK Yat Ming**
LAM Cheung Shing Richard***
SHI Bin Hai***

* *Executive Directors*

** *Non-executive Directors*

*** *Independent Non-executive Directors*

QUALIFIED ACCOUNTANT

CHAU Kam Wing Donald

COMPANY SECRETARY

MAK Tak Ping

AUTHORISED REPRESENTATIVE

XING Jing
LIN Ning

COMPLIANCE OFFICER

XING Jing

AUDIT COMMITTEE

LAM Cheung Shing Richard
SHI Bin Hai

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants

LEGAL ADVISER

Conyers Dill and Pearman
Preston|Gates|Ellis

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
Wing Hang Bank, Ltd.
Bank of China (Hong Kong) Limited

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

7th Floor, Sing Pao Building
101 King's Road
North Point
Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICE

Principal Registrars

Bank of Butterfield International (Cayman) Limited
P.O. Box 705
Butterfield House
Fort Street
George Town
Grand Cayman
Cayman Islands
British West Indies

Branch Registrars in Hong Kong

Computereshare Hong Kong Investor Services Limited
Rooms 1712-16
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

WEBSITE

www.singpao.com

STOCK CODE

8010

2004 marks the 65th anniversary of the Group's Sing Pao Daily News and I am very pleased to report the Group's developments over the past year in this commemorative year.

Hong Kong's business operating environment was unpredictable and difficult last year. Following the outbreak of the Severe and Acute Respiratory Syndrome the year before, many industries were hard hit and waiting to capitalize on recovery opportunities. The media sector had also fallen victim of this environmental situation with a rapid plunge in advertising income and critical challenges ahead. Fortunately, China's execution of the Individual Visit Scheme and the Closer Economic Partnership Arrangement ("CEPA") helped revive Hong Kong's investment environment and economic sentiment, and strengthen public confidence, leading to a strong rebound in the property and stock markets. The developments benefited all industries, particularly the retail sector, and this was an impetus to drive advertising income for the media industry.

To re-allocate and consolidate resources for the development of Sing Pao Daily News, the Group disposed of the loss-making Wide Angle Magazine, reduced its shareholding in China Youth On Line ("cyol.net") to 25% from 35%, and streamlined its investments in mainland publishing and distribution business during the year in review.

The Group's primary business focus was to enhance the competitiveness of Sing Pao Daily News. In addition to enforcing stringent cost controls, the Group will revamp the newspaper layout on 20 June 2004 and further strengthen its reporting, editorial and writing standards and quality. Content will be further enriched with new initiatives. Sing Pao Daily News has been growing with Hong Kong for the past 65 years, witnessing the many cyclical ups and downs of the territory. The newspaper will continue to monitor the Government, reflect the public sentiment and adhere to its fair and objective stance, as well as independent expression of views. Committed to Hong Kong, Sing Pao Daily News will stand by the Hong Kong people and continue to provide the Chinese community a high-quality integrated newspaper.

Strategic Media International Limited became the Group's majority shareholder in February 2004. In addition to capital contribution and support, it also introduced to the Group a strategic partner, Stellar Megamedia, the first and the largest civil media enterprise in China that is equipped with content, distribution and broadcast terminals. The Group will initiate innovative media cooperation with the integration of TV business and digital information centre.

I would like to express my gratitude to members of the board and the dedicated staff for their contribution over the past year, and also to readers, advertisers and customers for their support. The Group remains confident and will strive to achieve the best returns for our shareholders.

Chairman

CUI En Qing

Hong Kong, 21 June 2004



Management Discussion and Analysis

BUSINESS REVIEW

For the year ended 31 March 2004, the Group recorded a turnover of approximately HK\$116,882,000, representing a decrease of about 31.6% as compared with approximately HK\$170,846,000 of previous year. The diminished turnover was primarily attributable to the negative impact from the outbreak of Severe Acute Respiratory Syndrome in early 2003 and the continued fierce competition in Hong Kong's media industry.

Net loss for the year ended 31 March 2004 was approximately HK\$103,865,000, declined about 69.8% compared with approximately HK\$343,735,000 of previous year, or decreased about 30.1% when the incomparable factor of the amortization of approximately HK\$195,194,000 in publish right was eliminated.

The Group's continuous and persistent cost control measures during the year paid off with a 33.6% decrease in administrative expenses, 35.5% in advertising and promotion expenses, and a substantial drop in finance costs by 54.2% from the previous year.

LIQUIDITY AND FINANCIAL RESOURCES

On 15 April 2003, Leadership entered a subscription agreement with a private individual investor, pursuant to which the investor subscribed to 50,000,000 shares in the Group at HK\$0.40 each. The net fund raised of approximately HK\$19,900,000 would be used primarily to develop publishing distribution business – including books, audio-visual products, digital publishing products and magazines – with a third party in China and for general working capital. The subscription arrangement was completed on 6 May 2003.

The warrants of the Company (GEM warrant code: 8353) expired at 4:00 p.m. on 28 May 2003. The listing of the warrants was withdrawn at the close of business on the same day. During the year under review, no warrants were exercised.

On 24 and 25 June 2003, Leadership entered into subscription agreements with two private investors respectively, pursuant to which the two independent private investors subscribed to 43,684,000 shares in the Group at HK\$0.42 each. The net fund raised of approximately HK\$17,800,000 would be used primarily to develop publishing business in China and for general working capital. On 30 July 2003, the subscription of 17,856,000 shares was completed and on 14 August 2003, an independent investor deposited into the Group funds to subscribe 14,843,800 shares of the remaining batch of 25,828,000 shares. The remaining 10,984,200 new shares of the proposed subscription were not completed. Net fund raised was approximately HK\$13,700,000.

As at 31 March, 2004, total borrowings of the Group amounted to about HK\$89,089,000, of which approximately HK\$55,767,000 was payable to other individuals, approximately HK\$20,809,000 to related companies, approximately HK\$357,000 is payable to a shareholder and approximately HK\$12,156,000 due on obligations under finance leases. About HK\$9,764,000 of the total borrowings were repayable within one year. As at 31 March 2004, the Group's bank balance was about HK\$7,480,000, of which HK\$5,000,000 were used as collateral for obligations under finance leases. As at 31 March 2004, HK\$7,000,000 facilities provided by a related company remained unused.

As at 31 March 2004, the Group's gearing ratio was 64.9%, compared with 36.9% in 2003. It was arrived at by dividing the sum of long-term liabilities by total assets.

As at 31 March 2004, the Group has a litigation arising from its normal publishing business in Hong Kong of which the outcome is not ascertainable at present.

The Group's income is primarily denominated in Hong Kong dollars while the production costs are largely denominated in US dollars and Hong Kong dollars. Should the currency peg in Hong Kong remain unchanged, the Group is not exposed to any foreign exchange risk.

Newspaper – Sing Pao Daily News

During the year under review, Sing Pao Daily News remained the Group's core stable income sources, accounting for about 97.7% of the Group's total income. The newspaper's strong and stable readership ensured stable circulation income. There was also a satisfactory improvement in mainland publishing business and advertising income. The adoption of a series of stringent cost control measures had also led to a significant reduction in operating cost from the year before. To further enhance the production efficiency of the newspaper, Sing Pao Daily News implemented comprehensive computerization of its editorial system and restructured its production units.

Since the re-positioning in March 2003 as an integrated newspaper with healthy content for the mass public, Sing Pao Daily News continued to enrich its content and improve quality and layout design. This allowed the newspaper to expand its readership base within a short period of time. During the year, Sing Pao Daily News dedicated its efforts to diversify its newspaper content to align with market demands.

In the "Hong Kong Best News Awards 2003", Sing Pao Daily News scored an unprecedented four awards, including "Best News Reporting" – First Runner-Up, "Best Headline" – First Runner-Up, "Best Features Photo" – second Runner-Up and "Best News Page Layout" – Certificate of Excellence.



Sing Pao Daily News scored four awards in the "Hong Kong Best News Awards 2003".



Yan Chai Charity Walk

In the year under review, Sing Pao Daily News staged a series of large-scale promotional activities, including the "Yan Chai Charity Walk" that raised HK\$30,000 for Yan Chai Hospital, two healthcare seminar series with Yan Chai Hospital and Hong Kong Baptist Hospital, two fully packed Buddhist seminars at Hong Kong Coliseum, "Free visit to Hong Kong Products Expo" for readers, and regular gatherings and activities for Sing Pao Horseracing Fan Club. All of these activities were highly popular amongst readers.



Presentation for the Tip Competition of the "Sing Pao Daily News Celebrity Forum"



Buddist seminars given by Master Hsing Yun



Management Discussion and Analysis

To align with the focus on the younger readers, Sing Pao Daily News teamed up with the City University of Hong Kong to organize “Enjoy Readings for All Ages” reward program. In addition, the organization of a 12-day excursion journey to the mysterious Lorpur in cooperation with Hong Kong Great Wall Travel Agency and Xinjiang China International Travel Agency was met with overwhelming responses from the readers.



Award for “Enjoy Readings for All Ages”



singpao.com

and trade shows in Hong Kong. “Singpao.com” also added the “Advertising Supplement” section in mid-February 2004.

Disposal and Acquisition

To re-align and focus its resources on the core business of Sing Pao Daily News, the Group disposed of then loss-making Wide Angle Magazine at a consideration of approximately HK\$7,435,000, generating a profit equity of approximately HK\$2,627,000. The Group also disposed of 35% equity interests in China Youth On-Line (“cyol.net”) at a consideration of HK\$3,927,000 during the year in review. A loss of HK\$7,540,000 was recorded. Following the completion of the sale, the Group’s interests in cyol.net was reduced to 25%.

In November 2003, the Group acquired an 80% equity interests in Beijing Zhonglu Audio Visual Limited for about HK\$1,870,000. The company is primarily engaged in the processing and sale of audio-visual products in China. During the year, Beijing Zhonglu contributed approximately HK\$179,000 to the Group’s turnover and a loss of approximately HK\$27,000.

News and Entertainment Websites

The revamped “singpao.com” provides readers with comprehensive information and appealing important news everyday to expand the readership base. The website maintained steady daily hits during the year in review and visitors had been expanded to include the younger group and also non-Sing Pao Daily News readers.

The Group will continue to launch a series of initiatives to attract more advertisers and increase the Group’s income. “Singpao.com” will offer more and higher quality information to visitors, including the provision of information on various expositions

NUMBER OF EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2004, the Group employed approximately 407 (2003: 455) employees. Employees' remuneration packages are reviewed and determined by reference to the market pay and individual performance.

SHARE OPTION SCHEME

The Company adopted a new share option scheme on 15 January 2002, pursuant to which the Board of Directors has the discretion of offering options to subscribe to the shares of the Company to any directors (including non-executive directors), administrative staff, employees and contracted artists ("qualified individuals") of the Company and/or its subsidiaries in accordance with the terms of the new share option scheme and Chapter 23 of the GEM Listing Rules. The new option scheme aims to recognize the significant contribution made by the qualified individuals to drive the growth of the Group. The new option scheme became effective on 15 January 2002 and will remain effective until the end of the 10 anniversary years from 15 January 2002.

PROSPECTS

Looking ahead, the Group will focus on the development of its core business, Sing Pao Daily News. A revamp of the page layout was implemented on 20 June 2004 to sharpen positioning, enhance strengths, enrich content, and improve packaging to develop new readership segments, such as intellectuals, youths and female readers. The Group will continue to expand Hong Kong market share, and further develop the distribution network in China. The adoption of incentives by the sales department in May 2004 also saw initial positive results. It is expected that advertising income will continue to rise steadily.

Cooperation between the Group and Stellar Megamedia, one of the largest media groups in China is already in progress. The Group will leverage on its competitiveness in content and integrate with the TV business and digital information centre of Stellar Megamedia to develop new business growth drivers.



Biographical Information of Directors

EXECUTIVE DIRECTORS

Mr. CUI En Qing, aged 60, was appointed as the Chairman of the Group and the Non-executive Director of the Company in March 2004 and oversees the strategic development and operation of the Group. Mr. Cui has overseen the publication of the "Beijing Youth Report" and participated in the research, market development and promotional events of news media in Beijing of the People's Republic of China (the "PRC") from 1983 to 1996 (13 years). Currently, he is also responsible for the formulation and execution of reformation plan for a popular integrated daily news in Beijing of the PRC "Beijing Yu Le Xin Bao".

Mr. Cui has entered into a service agreement with the Company for one year. Mr. Cui does not have any relationships with the directors, senior management, management shareholders, substantial shareholders, or controlling shareholders of the Company. He has no interests in the shares within the meaning of Part XV of the Securities and Futures Ordinance.

Mr. LIN Ning, aged 50, was appointed as the Executive Director of the Company in February 2003 and is responsible for the strategic development and operation of the Group. He is a media professional with over 20 years' experience in news gathering and media advertising marketing. Mr. Lin was the Deputy General Manager of Ta Kung Pao and General Manager of Asia Television Enterprises Limited responsible for programme distribution in overseas market and advertising marketing promotion in the PRC. In addition, Mr. Lin is also the Executive Director of Sun Media Group Holdings Limited, which is listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He is also a director of a number of subsidiaries of the Company.

Mr. Lin has entered into a service agreement with a wholly owned subsidiary of the Company. Mr. Lin does not have any relationships with any director, senior management, management shareholders, substantial shareholders, or controlling shareholders of the Company. He holds 4,289,600 share option of the Company. Save disclosed herein, Mr. Lin has no interests in the shares within the meaning of Part XV of the Securities and Futures Ordinance.

Mr. XING Jing, aged 46, joined the Board in March 2004. He is the Executive Director of the Company and is responsible for the overall strategic development of the Group, particularly in the area of corporate finance of the Group. He holds a master degree in computer programming from the Graduate School of Peking University. Mr. Xing has over 15 years' experience in investment and operation of enterprises in information technology industry in the Greater China Region. Being the Chief Executive Officer of Kun Peng Technology Development Corporation Limited, Mr. Xing also has over 5 years' experience in the entertainment and media business.

There is no service contract between Mr. Xing and the Company and no proposed length of service with the Company. Mr. Xing is currently the President of Strategic Media International Limited, which has interests in the shares through SMI Corporation Limited ("SMI"), which is listed on the main board of the Stock Exchange and is the substantial shareholder of the Company. He is also the Chairman of SMI. Mr. Xing holds 43,000,000 share options of SMI. Save as disclosed herein, Mr. Xing has no interests in the Shares within the meaning of Part XV of the Securities and Futures Ordinance.

NON-EXECUTIVE DIRECTORS

Mr. KWOK Yat Ming, aged 46, was appointed as the Non-executive Director of the Company in March 2004 and is the Deputy Publisher and Editor-in-Chief of Sing Pao Daily News. He obtained a bachelor degree in Chinese from Hua Zhong Shi Fan Da Xue in 1984 and a diploma of master of arts degree course from Jinan University in the PRC in 1987. He has been engaged as a lecturer in the faculty of news in the Jinan University from 1988 to 1991. Mr. Kwok is experienced in the news publishing industry in Hong Kong. He was the chief reporter, chief editor and deputy editor in various local newspapers in Hong Kong during 1991 to 2003. In addition, Mr. Kwok acted as the Chief Executive Officer of the Economic Times of Asia Pacific of the Guangdong Asia Pacific Media Limited during the mid 2003 to February 2004. He is also a director of a number of subsidiaries of the Company.

Mr. Kwok has entered into a service agreement with a wholly owned subsidiary of the Company. The appointment is for a term of no more than three years. Mr. Kwok does not have any relationships with any directors, senior management, management shareholders, substantial shareholders, or controlling shareholders of the Company. He has no interests in the shares within the meaning of Part XV of the Securities and Futures Ordinance.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LAM Cheung Shing Richard, aged 45, was appointed as the Independent Non-executive Director of the Company in April 2004. He graduated with a Professional Diploma in Accountancy of The Hong Kong Polytechnic University and is a fellow member of the Hong Kong Society of Accountants and The Association of Chartered Certified Accountants. Mr. Lam is currently the Chief Executive Officer of Guo Xin Group Limited and Deputy Chief Executive Officer of Interchina Holdings Company Limited. In addition, Mr. Lam has over 20 year experiences in corporate finance, accountancy and taxation.

Mr. Lam has entered into a service agreement with the Company for one year. Mr. Lam does not have any relationships with the directors, senior management, management shareholders, substantial shareholders, or controlling shareholders of the Company. He has no interests in the shares within the meaning of Part XV of the Securities and Futures Ordinance.

Mr. SHI Bin Hai, aged 42, was appointed as the Independent Non-executive Director of the Company in April 2004. He graduated in 1983 with a law degree of Hua Dong Zheng Fa Xue Yuan and has over 20 year experiences in media business of the PRC. Mr. Shi was and is a chief editor and senior reporter of various prestige newspapers since 1983 up to the present.

Mr. Shi has entered into a service agreement with the Company for one year. Mr. Shi does not have any relationships with the directors, senior management, management shareholders, substantial shareholders, or controlling shareholders of the Company. He has no interests in the shares within the meaning of Part XV of the Securities and Futures Ordinance.



The directors present their report together with the audited financial statements for the year ended 31 March 2004.

PRINCIPAL ACTIVITIES

The Company is an investment holding company with its shares listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The activities of its principal subsidiaries are set out in note 15 to the financial statements.

RESULTS

The Group's loss for the year ended 31 March 2004 is set out in the consolidated income statement on page 19.

SHARE CAPITAL

During the year, the Company issued 82,699,800 shares at a total consideration of approximately HK\$33,734,000 pursuant to share placements. Details of movements in the share capital of the Company during the year are set out in note 28 to the financial statements.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 30 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 March 2004, the largest customer of the Group and together with the next four largest customers accounted for 55% and 62%, respectively, of the Group's turnover. The aggregate purchases attributable to the Group's five largest suppliers were less than 30% of the Group's cost of sales.

As far as the directors are aware, neither the directors, their associates (within the meaning of the GEM Listing Rules) nor those shareholders which to the knowledge of the directors own more than 5% in the Company's share capital had any interest in the five largest customers.

DIRECTORS

The directors of the Company in office during the year and up to the date of this report are as follows:

CUI En Qing** (<i>Chairman</i>)	(appointed on 2 March 2004)
XING Jing*	(appointed as non-executive director on 2 March 2004 and redesignated as executive director on 31 May 2004)
LIN Ning*	
KWOK Yat Ming**	(appointed on 2 March 2004)
LAM Cheung Shing Richard***	(appointed on 6 April 2004)
SHI Bin Hai***	(appointed on 6 April 2004)
SHIN Kei Yin Stephen**	(appointed as executive director on 2 March 2004, redesignated as non-executive director on 31 May 2004 and resigned on 14 June 2004)
HAO Bin**	(appointed on 2 March 2004 and resigned on 31 May 2004)
WU Zheng Bruno*	(resigned on 20 February 2004)
LI John Zongyang*	(resigned on 2 March 2004)
PAO Wan Lung*	(resigned on 2 March 2004)
TANG Yuen Ching Irene**	(resigned on 16 April 2004)
XU Tie Liang***	(resigned on 1 March 2004)
HO Cecil Te Hwai***	(resigned on 2 March 2004)

* *Executive Directors*

** *Non-executive Directors*

*** *Independent Non-executive Directors*

In accordance with Article 98 of the Articles of Association of the Company, Messrs. CUI En Qing, XING Jing, KWOK Yat Ming, LAM Cheung Shing Richard and SHI Bin Hai shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The length of the term of appointment of every independent non-executive directors is one year. The length of the term of appointment of every non-executive directors is not exceed three years.

SERVICE CONTRACTS

None of the directors of the Company being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation.



DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 March 2004, the interests or short positions of the directors and chief executive in the shares, underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

a. The Company*Share Option*

Name of director	Date of grant	Exercisable period	Exercisable price per share <i>HK\$</i>	Number of share option outstanding as at 31 March 2004
LIN Ning	13.08.2003	13.08.2003 – 12.08.2013	0.593	4,289,600

b. Associated Corporation*SMI Corporation Limited ("SMI") (formerly Star East Holdings Limited)*

Name of director	Date of grant	Exercisable period	Exercisable price per share <i>HK\$</i>	Number of share option outstanding as at 31 March 2004
XING Jing	28.07.2003	28.01.2004 – 27.01.2007	0.033	43,000,000

Save as disclosed above, none of the directors or their associates had, as at 31 March 2004, any interests or short positions in any shares, underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

Save as disclosed above, at no time during the year was the Company, its subsidiaries or holding company a party to any arrangement 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 SCHEMES

At the extraordinary general meeting of the Company held on 15 January 2002, the Share Option Scheme (the "Scheme") was adopted and the Employee Share Option Scheme adopted on 15 May 2000 was terminated. A summary of the Scheme is as follows:

1. Purpose
The purposes of the Scheme are to recognize the significant contributions of the eligible persons to the growth of the Group by rewarding them with opportunities to obtain the ownership interest in the Company and to further motivate and give incentives to those persons to continue to contribute to the Group's long term success and prosperity.
2. Participants
The eligible persons include directors of the Group (including non-executive directors), executives and employees of the Group and contracted celebrity.
3. Maximum number of shares available for subscription
The maximum number of shares in respect of which options may be granted under the Scheme and any other outstanding share option scheme of the Company shall not exceed 10% of the total number of shares in issue as at the date of passing the resolution of adoption of the Scheme.
4. Maximum entitlement of each participant
The total number of shares issued and to be issued upon exercise of the share options granted to each eligible person (including exercised, cancelled and outstanding share options) in any 12-month period must not exceed 1% of the share capital of the Company in issue.
5. Time of acceptance
The eligible person must accept any offer notified to him or her within 28 days from the offer date, failing which it shall be deemed to have rejected. Upon acceptance of the offer, the grantee shall pay HK\$1 to the Company as consideration for the grant.
6. Maximum period for exercising an option
A period within which the shares shall be taken up, to be notified by the Board to each grantee, commencing on the date on which the option is granted or deemed to be granted in accordance with the terms of the Scheme and expiring on the last day of such period, and in any event such period of time must not be more than 10 years from the date on which the option is granted or deemed to be granted in accordance with the terms of the Scheme.
7. Basis of determining the exercise price
The subscription price for the share under the Scheme shall be a price determined by the Board at its absolute discretion and notified to an eligible person but shall not be less than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the offer date; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the offer date; and (iii) the nominal value of a share.



8. Remaining life of the Scheme

The Scheme will remain in force for a period of 10 years commencing on 15 January 2002 up to 14 January 2012.

The following table discloses movement of the Company's share options during the year:

	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options			
				Balance as at 1 April 2003	Granted during the year	Lapsed upon resignation	Balance as at 31 March 2004
Category 1:							
<i>Directors</i>							
WU Zheng, Bruno	13.08.2003	13.08.2003 – 12.08.2013	0.593	-	5,362,000	(5,362,000)	-
LI John Zongyang	13.08.2003	13.08.2003 – 12.08.2013	0.593	-	4,825,800	(4,825,800)	-
LIN Ning	13.08.2003	13.08.2003 – 12.08.2013	0.593	-	4,289,600	-	4,289,600
PAO Wan Lung	13.08.2003	13.08.2003 – 12.08.2013	0.593	-	4,289,600	-	4,289,600
TANG Yuen Ching Irene	13.08.2003	13.08.2003 – 12.08.2013	0.593	-	2,681,000	-	2,681,000
				-	21,448,000	(10,187,800)	11,260,200
Category 2:							
Employees	13.08.2003	13.08.2003 – 12.08.2013	0.593	-	11,796,400	-	11,796,400
				-	33,244,400	(10,187,800)	23,056,600

The closing price of the Company's shares immediately before 13 August 2003, the date of grant of the share options, was HK\$0.580.

The fair value of the 33,244,400 share options granted was approximately HK\$17,110,000. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

Expected life of options	10 years
Expected volatility based on historical volatility of share price	93%
Expected annual dividend yield	-
Hong Kong Exchange Fund Notes	4.699%

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 share options expected to be forfeited, due to lack of historical data.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2004, the persons or corporations (not being a director or chief executive of the Company) who have interests or short positions in the shares of the Company as recorded in the register required to be kept under Section 336 of the SFO or have otherwise notified to the Company were as follows:

Name of shareholders	Capacity	No. of shares of the Company held	Approximate percentage of shareholding
QIN Hui	Held by controlled corporation	101,186,630 (Note 2)	18.36%
Strategic Media International Limited	Held by controlled corporation	101,186,630 (Note 2)	18.36%
SMI	Held by controlled corporation	101,186,630 (Note 1)	18.36%
Precious Days Limited	Held by controlled corporation	101,186,630 (Note 1)	18.36%
Lucky Cosmo Limited	Beneficial owner	101,186,630 (Note 1)	18.36%
Sina Corporation	Beneficial owner	51,769,817	9.39%
PENG Chi Hui	Beneficial owner	50,000,000	9.07%
REN Jian Hong	Beneficial owner	41,205,850 (Note 3)	7.48%
CHEN Qing	Held by spouse	41,205,850 (Note 3)	7.48%

Note:

1. Lucky Cosmos Limited is a wholly-owned subsidiary of Precious Days Limited which is, in turn, a wholly-owned subsidiary of SMI, the entire issued share capital of which is listed on the Main Board of the Stock Exchange. By virtue of the SFO, both of Precious Days Limited and SMI are deemed to be interested in all the shares in which Lucky Cosmos Limited is interested.
2. Strategic Media International Limited, wholly owned by Mr. QIN Hui, is beneficially interested in 50.24% of the issued share capital of SMI. By virtue of the SFO, both of Strategic Media International Limited and Mr. QIN Hui are deemed to be interested in all the shares in which SMI interested.
3. Madam CHEN Qing, the spouse of Mr. REN Jian Hong, is deemed to be interested in all the shares in the Company held by Mr. Ren.



Save as disclosed above, as at 31 March 2004, the Directors are not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company representing 5% or more of the issued share capital of the Company.

DIRECTORS' INTEREST IN CONTRACT

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at 31 March 2004 or any time during the year.

CONTRACT OF SIGNIFICANCE

1. Pursuant to the deed of settlement dated 24 January 2003 (the "Settlement Deed") entered into among the Company, Sing Pao Newspaper Company Limited ("Sing Pao Newspaper"), Glory Dynamic Limited, a wholly and beneficially owned subsidiary of China Strategic Holdings Limited ("China Strategic"), Genius Ideas Limited, a wholly and beneficially owned subsidiary of Hanny Holdings Limited ("Hanny"), Star East Management Limited, a wholly and beneficially owned subsidiary of SMI and SMI (collectively "Creditors"), which are the substantial shareholders of the Company before Sun Media Group Holdings Limited ("Sun Media") completed to acquire the controlling interests in the Company (the "Completion"), the Creditors agreed to reduce the entire amount of shareholders' loans of approximately HK\$104,310,000 to HK\$60,000,000 (the "Reduced Loan"). The Reduced Loan will be due and payable on the date falling on the expiry of 30 calendar months after the year end of any financial year of the Company after the date of Completion. It accrues interest at Prime Rate or best lending rate for Hong Kong dollars. The repayment date will fall on or before a date which must not be later than 20 years from the date of Completion, after which all rights, obligations and liabilities of the parties to the Settlement Deed in relation to the Reduced Loan shall cease and determine.

Pursuant to the deed of assignment dated 24 January 2003 (the "Deed of Assignment") entered into among the Company, Sing Pao Newspaper and the Creditors and Sun Media, the Creditors agreed to assign HK\$40,000,000 of the Reduced Loan to Sun Media and the consideration will be satisfied by the issue and allotment of 400,000,000 new ordinary shares of HK\$0.02 each in the capital of Sun Media to China Strategic, Hanny and SMI (or as any of them may direct) at the expiry of two calendar years from the date of Completion at an issue price of HK\$0.10 per share (subject to adjustment).

2. Pursuant to the loan agreements dated 8, 10, and 30 March 2004 entered into between the Company as Borrower and Strategic Media International Limited as Lender, the Lender agreed to make available to the Company short term unsecured loans for the total amount of HK\$20,000,000 to facilitate the Company's working capital and are repayable in three months following the date of drawdown.

Save as disclosed above, no contracts of significance was entered into between the Company or its subsidiaries and a controlling shareholder or its subsidiaries during the year.

COMPETING INTERESTS

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

BOARD PRACTICES AND PROCEDURES

The Company has complied throughout the year ended 31 March 2004 with the board practices and procedures, as set out in Rules 5.28 to 5.39 the GEM Listing Rules.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company.

AUDIT COMMITTEE

Mr. LAM Cheung Shing Richard and Mr. SHI Bin Hai have been appointed as the member of the Audit Committee of the Company on 6 April 2004.

Mr. XU Tie Liang and Mr. HO Cecil Te Hwai have resigned from the Audit Committee of the Company on 1 March 2004 and 2 March 2004, respectively.

The duties of the Audit Committee are to review the annual report and accounts, half-yearly report and quarterly reports and to provide advice and comment to the Board. In addition, it is responsible for reviewing and supervising the financial reporting process and internal control procedures of the Group.

The audit committee held 4 meetings during the year ended 31 March 2004.

PRE-EMPTIVE RIGHTS

There are no provision for pre-emptive rights under the Articles of Association of the Company or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

POST BALANCE SHEET EVENT

Details of the post balance sheet event are set in note 40 to the financial statements.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

By Order of the Board

Leadership Publishing Group Limited

CUI En Qíng

Chairman

Hong Kong, 21 June 2004



Deloitte.

德勤

TO THE SHAREHOLDERS OF LEADERSHIP PUBLISHING GROUP LIMITED
現代旌旗出版集團有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 19 to 57 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements regarding the liquidity of the Group and the active steps having taken by the directors to improve the position. Provided that additional equity fundings can be secured, the directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. The financial statements have been prepared on a going concern basis, the validity of which depends upon future fundings being available. The financial statements do not include any adjustments that would result from a failure by the Group to meet in full its financial obligations as they fall due. We consider that the fundamental uncertainty has been adequately disclosed in the financial statements and our opinion is not qualified in this report.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2004 and of the loss and cash flows of the Group for the year then ended and have been prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
21 June 2004

Consolidated Income Statement

For the year ended 31 March 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Turnover	5	116,882	170,846
Cost of sales		(149,469)	(201,068)
Gross loss		(32,587)	(30,222)
Other operating income		3,782	4,431
Advertising and promotion expenses		(10,357)	(16,051)
Administrative expenses		(53,916)	(81,229)
Impairment loss recognised in respect of intangible assets		-	(195,194)
Impairment loss recognised in respect of prepaid airtime		-	(12,000)
Unrealised gain (loss) on investments in securities		250	(4,167)
Impairment loss recognised in respect of goodwill of subsidiary		(1,764)	-
Loss from operations	7	(94,592)	(334,432)
Finance costs	8	(3,882)	(8,480)
Share of results of associates		(496)	(232)
Loss on disposal of subsidiaries		(4,913)	(282)
Loss on dilution of interest in an associate		-	(309)
Loss before taxation		(103,883)	(343,735)
Taxation	11	-	-
Loss before minority interests		(103,883)	(343,735)
Minority interests		18	-
Net loss for the year		(103,865)	(343,735)
Loss per share – basic (HK\$)	12	(0.19)	(0.98)



Consolidated Balance Sheet

At 31 March 2004

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	Notes	2004 HK\$'000	2003 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	74,779	95,572
Interest in an associate	17	3,295	–
Investments in securities	18	1,815	1,333
Pledged deposit placed with a finance company		5,000	5,000
		84,889	101,905
CURRENT ASSETS			
Inventories	19	2,605	1,518
Trade and other receivables	20	18,373	23,495
Prepaid airtime		13,802	23,649
Bank balances and cash		2,480	40,008
		37,260	88,670
CURRENT LIABILITIES			
Trade and other payables	21	17,109	25,927
Amount due to a shareholder	22	357	–
Amounts due to fellow subsidiaries		–	551
Obligations under finance leases – due within one year	23	9,407	7,613
		26,873	34,091
NET CURRENT ASSETS		10,387	54,579
TOTAL ASSETS LESS CURRENT LIABILITIES		95,276	156,484
NON-CURRENT LIABILITIES			
Obligations under finance leases – due after one year	23	2,749	9,790
Advances from a related company	24	13,024	–
Long-term loans from related companies	25	7,785	–
Loan from ultimate holding company	26	–	40,362
Other loans	27	55,767	20,181
		79,325	70,333
MINORITY INTERESTS		8	–
		15,943	86,151
CAPITAL AND RESERVES			
Share capital	28	27,556	23,421
Reserves	30	(11,613)	62,730
		15,943	86,151

The financial statements on pages 19 to 57 were approved and authorised for issue by the Board of Directors on 21 June 2004 and are signed on its behalf by:

CUI En Qing
Director

XING Jing
Director

Balance Sheet

At 31 March 2004

	Notes	2004 HK\$'000	2003 <i>HK\$'000</i>
NON-CURRENT ASSET			
Investments in subsidiaries	15	-	13,589
Amounts due from subsidiaries	16	50,671	101,793
		50,671	115,382
CURRENT ASSETS			
Other receivables and prepayment		67	40
Bank balances and cash		-	9
		67	49
CURRENT LIABILITY			
Other payables and accrued charges		1,625	1,744
NET CURRENT LIABILITIES		(1,558)	(1,695)
TOTAL ASSETS LESS CURRENT LIABILITIES		49,113	113,687
NON-CURRENT LIABILITIES			
Advances from a related company	24	13,024	-
Long-term loans from related companies	25	4,643	-
Loan from ultimate holding company	26	-	18,729
Other loans	27	24,848	9,365
		42,515	28,094
		6,598	85,593
CAPITAL AND RESERVES			
Share capital	28	27,556	23,421
Reserves	30	(20,958)	62,172
		6,598	85,593

CUI En Qing
Director

XING Jing
Director



Consolidated Statement of Changes in Equity

For the year ended 31 March 2004

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	Total equity <i>HK\$'000</i>
At 1 April 2002	256,156
Exchange differences arising from translation of operations outside Hong Kong and loss not recognised in the income statement	(142)
Rights issue of shares	104,094
Rights issue expenses	(2,697)
Shareholders' contributions arising from waiver of loans from shareholders	72,894
Exchange reserve released on disposal of a subsidiary	(419)
Net loss for the year	<u>(343,735)</u>
At 31 March 2003	86,151
Issue of shares at premium	33,734
Share issue expenses	(169)
Exchange reserve released on disposal of a subsidiary	92
Net loss for the year	<u>(103,865)</u>
At 31 March 2004	<u>15,943</u>

Consolidated Cash Flow Statement

For the year ended 31 March 2004

	2004 HK\$'000	2003 <i>HK\$'000</i>
OPERATING ACTIVITIES		
Loss before taxation	(103,883)	(343,735)
Adjustments for:		
Allowance for bad and doubtful debts	4,591	1,080
Write-down of inventories	641	1,363
Depreciation and amortisation	20,075	31,037
Interest income	(235)	(938)
Interest expenses	3,882	8,480
Loss on disposal of subsidiaries	4,913	282
Loss on dilution of interest in an associate	-	309
Share of results of associates	496	232
Loss on disposal of property, plant and equipment	996	130
Impairment loss recognised in respect of intangible assets	-	195,194
Impairment loss recognised in respect of prepaid airtime	-	12,000
Unrealised (gain) loss on investments in securities	(250)	4,167
Impairment loss recognised in respect of goodwill of subsidiary	1,764	-
Operating cash flows before movements in working capital	(67,010)	(90,399)
Increase in inventories	(1,831)	(16)
(Increase) decrease in trade and other receivables	(3,939)	6,350
Decrease in prepaid airtime	9,847	6,157
Decrease in amounts due from related parties	-	4,550
Decrease in trade and other payables	(8,145)	(12,704)
Decrease in amount due to an associate	-	(45)
Decrease in amounts due to related parties	-	(2,097)
(Decrease) increase in amounts due to fellow subsidiaries	(551)	551
NET CASH USED IN OPERATIONS	(71,629)	(87,653)
Interest received	235	938
NET CASH USED IN OPERATING ACTIVITIES	(71,394)	(86,715)



Consolidated Cash Flow Statement

For the year ended 31 March 2004

	Notes	2004 HK\$'000	2003 HK\$'000
INVESTING ACTIVITIES			
Cash (outflow) inflow from disposal of subsidiaries	34	(2,031)	724
Acquisition of a subsidiary, net of cash and cash equivalents acquired	33	(1,725)	(1,157)
Purchases of property, plant and equipment		(665)	(3,019)
Proceeds on disposal of property, plant and equipment		33	1,512
Decrease in pledged deposit placed with a finance company		-	5,000
Repayment of amounts due from associates		-	1,172
NET CASH (USED IN) FROM INVESTING ACTIVITIES		(4,388)	4,232
FINANCING ACTIVITIES			
Net proceed from issue of shares		33,565	-
Advances from a related party		13,000	5,000
Advance from a shareholder		7,000	-
Repayment of obligations under finance leases		(7,819)	(7,365)
Repayment of amount due to a shareholder		(6,704)	-
Finance lease charges		(788)	(1,107)
Proceeds from rights issue of shares		-	104,094
Loans from shareholders		-	69,000
Repayment of loans from shareholders		-	(44,400)
Repayment of loan from a related party		-	(22,000)
Rights issue expenses		-	(2,697)
Interest paid		-	(2,079)
NET CASH FROM FINANCING ACTIVITIES		38,254	98,446
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(37,528)	15,963
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		-	(118)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		40,008	24,163
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH		2,480	40,008

1. GENERAL

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands with its shares listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). At 31 March 2003, its ultimate holding company was Sun Media Group Holdings Limited ("Sun Media"), a company incorporated in Bermuda with its shares listed on the main board of the Stock Exchange.

On 26 September 2003, the board of directors of Sun Media proposed a special distribution ("Special Distribution") by distributing its entire interest in the equity of the Company to the shareholders of Sun Media. Pursuant to a special general meeting of Sun Media held on 5 December 2003, the proposal for the Special Distribution was approved and Sun Media ceased to be the ultimate holding company of the Company since 8 December 2003.

The Company is an investment holding company. Its subsidiaries are principally engaged in publication of newspaper and magazine and operation of websites.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the Group having net current assets of only HK\$10.4 million as at 31 March 2004 and having incurred losses during the year then ended.

The Group has been meeting its immediate funding requirements through advances from Strategic Media International Limited ("SMIL"), the ultimate holding company of a substantial shareholder of the Company. SMIL has further advanced of HK\$5.0 million to the Group subsequent to the balance sheet date in addition to the advances of HK\$13.0 million already made to the Group at 31 March 2004 as set out in note 24. Furthermore, since the year end, the directors have been taking active steps to improve the liquidity position of the Group and as explained in note 40, the Group raised approximately HK\$8.5 million from a placement of new shares in the Company with independent investors. Also, the directors of the Company are currently exploring various options for providing additional equity fundings to the Group. Provided that such additional equity fundings can be secured, the directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.



3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"). The term of HKFRS is inclusive of Statement of Standard Accounting Practice ("SSAP") and its interpretations approved by the HKSA.

In the current year, the Company adopted SSAP 12 (Revised) "Income Taxes" issued by the HKSA. The principal effect of the implementation of SSAP12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of this revised SSAP has had no material effect on the results for the current or prior accounting periods.

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain investments in securities and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition and is capitalised and amortised on a straight line basis over its useful economic life.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)**Interests in associates**

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates, less any identified impairment loss.

Revenue recognition

Sales of newspapers and magazines are recognised when newspapers and magazines are delivered and title has passed.

Advertising revenue is recognised on the relevant publication date of the Group's newspapers and magazines.

Advertising revenue is also derived from the sales of banner advertisements and sponsorships on the Group's website. The advertising revenue is recognised over the period in which the advertisements are displayed, provided that no significant obligations remain and collection of the receivable is reasonably assured.

Revenue from sponsorship arrangements is recognised when services are provided.

Revenue from internet website content sales is recognised on a straight-line basis over the contract term if the revenues for the service are fixed.

Sales of goods are recognised when goods are delivered and title has passed and the collectibility of the amount receivable is reasonably assured.

Interest income from bank deposits is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Barter transactions

When goods or services are exchanged or swapped for dissimilar goods or services, the exchange is regarded as a transaction which generates revenue and barter revenue and expenses are recognised. Barter revenue and expenses are measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, barter revenue and expenses are measured at the fair value of the goods or services give up, adjusted by the amount of any cash or cash equivalents transferred,



4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and amortisation and accumulated impairment losses.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold land and building	4%
Leasehold improvements	Shorter of the lease term or 5 years
Machinery	15%
Furniture, fixtures and equipment	15%
Network and computer equipment	15%
Motor vehicles	15%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Finance leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liabilities to the lessor, net of interest charges, are included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the term of the relevant lease.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)**Investments in securities**

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

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 bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised 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 recognised 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 tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference 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 it 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 realised. 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.



4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

Transactions in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated into Hong Kong dollars at the rates ruling on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated into Hong Kong dollars at the exchange rates ruling on the balance sheet date. Income and expenses are translated into Hong Kong dollars at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange reserve. Such translation differences are recognised as income or as expenses in the year in which the operation is disposed of.

5. TURNOVER

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

	2004	2003
	HK\$'000	HK\$'000
Newspapers and magazines advertising income	49,059	83,310
Sales of newspapers and magazines	66,940	85,211
Advertising and sponsorship	-	1,174
Internet website content sales	704	1,079
Sales of goods, net of discounts and allowances	179	72
	116,882	170,846

Included in newspapers and magazines advertising income is approximately HK\$2,608,000 (2003: HK\$2,168,000) in respect of barter transactions entered into during the year.

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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 turnover and net loss for the year and assets and liabilities by business segments is as follows:

	Newspaper and magazine business		Website business		Others		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	115,999	168,521	704	2,325	179	-	116,882	170,846
Segment result	(81,544)	(315,043)	(1,305)	(12,164)	(11,978)	(8,163)	(94,827)	(335,370)
Interest income							235	938
Loss from operations							(94,592)	(334,432)
Finance costs							(3,882)	(8,480)
Share of results of associates							(496)	(232)
Gain (loss) on disposal of subsidiaries	2,627	-	(7,540)	(282)	-	-	(4,913)	(282)
Loss on dilution of interest in an associate							-	(309)
Loss before taxation							(103,883)	(343,735)
Taxation							-	-
Loss before minority interests							(103,883)	(343,735)
Minority interests							18	-
Net loss for the year							(103,865)	(343,735)
ASSETS								
Segment assets	114,811	146,265	1,848	42,928	2,195	1,382	118,854	190,575
Interests in associates							3,295	-
Consolidated total assets							122,149	190,575
LIABILITIES								
Segment liabilities	14,211	22,946	940	1,166	1,958	2,366	17,109	26,478
Unallocated corporate liabilities							89,089	77,946
Consolidated total liabilities							106,198	104,424
OTHER INFORMATION								
Capital expenditure								
- property, plant and equipment	3,225	1,865	-	1,154	12	-	3,237	3,019
Depreciation and amortisation	19,452	28,101	615	2,936	8	-	20,075	31,037
Impairment loss recognised								
in respect of								
- intangible assets	-	195,194	-	-	-	-	-	195,194
- prepaid airtime	-	12,000	-	-	-	-	-	12,000
- goodwill	-	-	-	-	1,764	-	1,764	-
Unrealised (gain) loss on investments in securities	-	-	-	-	(250)	4,167	(250)	4,167
Allowance for bad and doubtful debts	841	265	-	815	3,750	-	4,591	1,080
Write-down of inventories	608	-	33	1,363	-	-	641	1,363

The Group's operations are mainly located in Hong Kong and all significant identifiable assets of the Group are located in Hong Kong. Accordingly, no analysis by geographic segment is presented.



7. LOSS FROM OPERATIONS

	2004	2003
	HK\$'000	HK\$'000
Loss from operations has been arrived at after charging (crediting):		
Staff costs, including directors' remuneration and staff redundancy expenses	90,754	122,160
Retirement benefits scheme contributions	2,803	5,384
Total staff costs	93,557	127,544
Amortisation included in administrative expenses:		
Intangible assets	-	8,560
Goodwill	-	20
Depreciation and amortisation of property, plant and equipment:		
Owned assets	3,171	5,702
Assets held under finance leases	16,904	16,755
Total depreciation and amortisation	20,075	31,037
Auditors' remuneration	592	680
Write-down of inventories	641	1,363
Allowance for bad and doubtful debts	4,591	1,080
Loss on disposal of property, plant and equipment	996	130
Cost of inventories charged as cost of sales	40,147	60,848
Interest income	(235)	(938)

8. FINANCE COSTS

	2004	2003
	HK\$'000	HK\$'000
Interest on:		
Other loans	2,640	181
Finance leases	788	1,107
Loans from related companies	393	-
Amount due to a shareholder	61	-
Loans from shareholders	-	6,200
Loan from ultimate holding company	-	362
Loan from a related party	-	625
Bank borrowings wholly repayable within five years	-	5
	3,882	8,480

9. DIRECTORS' REMUNERATION

	2004	2003
	HK\$'000	HK\$'000
Fees:		
Executive directors	-	-
Non-executive directors	-	-
Independent non-executive directors	-	-
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>
Other emoluments to executive directors:		
Salaries and other benefits	4,888	2,448
Compensation for loss of office	-	776
Retirement benefits scheme contributions	59	32
	<hr/>	<hr/>
	4,947	3,256
	<hr/>	<hr/>
	4,947	3,256
	<hr/>	<hr/>

There were six directors who received emoluments of HK\$1,587,000, HK\$1,212,000, HK\$944,000, HK\$637,000, HK\$507,000 and HK\$60,000, respectively, for the year ended 31 March 2004. For the year ended 31 March 2003, there were eight directors who received emoluments of HK\$1,253,000, HK\$1,237,000, HK\$219,000, HK\$175,000, HK\$102,000, HK\$92,000, HK\$89,000 and HK\$89,000, respectively. The other directors did not receive any emoluments from the Group.

None of the directors has waived any emoluments during the year.

10. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2003: two) were directors of the Company whose emoluments are included in note 9 above. The emoluments of the remaining three (2003: three) individuals were as follows:

	2004	2003
	HK\$'000	HK\$'000
Salaries and other benefits	2,820	3,456
Retirement benefits scheme contributions	24	36
	<hr/>	<hr/>
	2,844	3,492
	<hr/>	<hr/>



10. EMPLOYEES' EMOLUMENTS (continued)

Their emoluments were within the following bands:

	No. of employees	
	2004	2003
Nil – HK\$1,000,000	2	–
HK\$1,000,001 – HK\$1,500,000	1	3
	3	3

11. TAXATION

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

The taxation for the year can be reconciled to the loss per the income statement as follows:

	2004	2003
	HK\$'000	HK\$'000
Loss before taxation	(103,883)	(343,735)
Tax at the domestic income tax rate of 17.5% (2003: 16%)	(18,180)	(54,998)
Tax effect of share of results of associates	87	37
Tax effect of expenses that are not deductible in determining taxable profit	3,395	37,526
Tax effect of income that is not taxable in determining taxable profit	(111)	(193)
Tax effect of unrecognised tax losses	14,704	17,206
Effect of different tax rates of operations in other jurisdictions	105	422
Taxation for the year	–	–

Details of deferred taxation are set out in note 36.

12. LOSS PER SHARE

The calculation of the basic loss per share for the year is based on the net loss for the year of HK\$103,865,000 (2003: HK\$343,735,000) and the weighted average number of approximately 535,013,000 (2003: 349,368,000) shares in issue during the year.

The computation of diluted loss per share does not assume the exercise of the Company's outstanding share options and warrants since their exercise would result in a reduction in loss per share.

13. PROPERTY, PLANT AND EQUIPMENT

	Land and building	Leasehold improvements	Machinery	Furniture, fixtures and equipment	Network and computer equipment	Motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
THE GROUP							
COST							
At 1 April 2003	500	1,528	105,398	3,293	16,153	1,382	128,254
Acquisitions of subsidiaries	-	-	-	12	-	-	12
Additions	-	-	-	71	3,166	-	3,237
Disposals	-	-	(1,537)	(20)	(7,079)	(17)	(8,653)
Disposal of subsidiaries	(254)	-	-	(246)	(3,513)	(183)	(4,196)
At 31 March 2004	246	1,528	103,861	3,110	8,727	1,182	118,654
DEPRECIATION, AMORTISATION AND IMPAIRMENT							
At 1 April 2003	31	350	22,368	1,004	8,666	263	32,682
Provided for the year	19	264	17,446	580	1,566	200	20,075
Eliminated on disposals	-	-	(594)	(11)	(7,014)	(5)	(7,624)
Eliminated on disposal of subsidiaries	(24)	-	-	(135)	(1,063)	(36)	(1,258)
At 31 March 2004	26	614	39,220	1,438	2,155	422	43,875
NET BOOK VALUES							
At 31 March 2004	220	914	64,641	1,672	6,572	760	74,779
At 31 March 2003	469	1,178	83,030	2,289	7,487	1,119	95,572

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

Included in machinery and network and computer equipment are assets held under finance leases with net book values of HK\$62,446,000 (2003: HK\$79,201,000) and HK\$2,424,000 (2003: Nil), respectively.



14. GOODWILL

	THE GROUP
	<i>HK\$'000</i>
	<hr/>
COST	
At 1 April 2003	6,357
Arising on acquisition of a subsidiary	1,764
	<hr/>
At 31 March 2004	8,121
	<hr/>
AMORTISATION AND IMPAIRMENT	
At 1 April 2003	6,357
Impairment loss recognised for the year	1,764
	<hr/>
At 31 March 2004	8,121
	<hr/>
NET BOOK VALUES	
At 31 March 2004 and 31 March 2003	—
	<hr/>

During the year, the directors of the Company have reviewed the carrying amount of goodwill arising from acquisition of a subsidiary which is mainly engaged in the distribution of audio and video tapes. With reference to the financial performance and the existing operation plan of that subsidiary, impairment loss of HK\$1,764,000 (2003: Nil) has been identified and recognised in the consolidated income statement.

15. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	35,589	35,589
Impairment loss recognised	(35,589)	(22,000)
	<hr/>	<hr/>
	—	13,589
	<hr/>	<hr/>

Notes to the Financial Statements

For the year ended 31 March 2004

15. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the Company's principal subsidiaries at 31 March 2004 are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Kind of legal entity	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capita/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
				%	%	
First Brilliant Limited	British Virgin Islands ("BVI")	Limited liability company	US\$1	100	–	Investment holding
Actiwater Resources Limited	BVI	Limited liability company	US\$1	–	100	Investment holding
Designate Success Limited	BVI	Limited liability company	US\$100	–	100	Investment holding
Komatic International Limited	BVI	Limited liability company	US\$1	–	100	Investment holding
Optima Media Holding Limited	BVI	Limited liability company	US\$100	–	100	Investment holding
Sing Pao Newspaper Assets Limited 成報報刊資產有限公司	Hong Kong	Limited liability company	HK\$2	–	100	Holding of fixed assets
Sing Pao Newspaper (BVI) Limited	BVI	Limited liability company	US\$1	–	100	Investment holding
Sing Pao Newspaper Company Limited ("Sing Pao Newspaper") 成報報刊有限公司	Hong Kong	Limited liability company	HK\$2	–	100	Newspaper publication
Sing Pao Newspaper Distribution (BVI) Limited	BVI	Limited liability company	US\$1	–	100	Investment holding
Sing Pao Newspaper Distribution Limited 成報報刊發行有限公司	Hong Kong	Limited liability company	HK\$2	–	100	Provision of management services



15. INVESTMENTS IN SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation or registration/ operations	Kind of legal entity	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capita/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
				%	%	
Sing Pao Newspaper Management Limited 成報報刊管理有限公司	Hong Kong	Limited liability company	HK\$2	–	100	Provision of management services
Sing Pao Newspaper Services Limited 成報報刊服務有限公司	Hong Kong	Limited liability company	HK\$2	–	100	Provision of nominee services and secretarial services
StarEastNet (BVI) Limited	BVI	Limited liability company	US\$1,000	100	–	Investment holding
StarEastNet.com Management Limited	Hong Kong	Limited liability company	HK\$2	–	100	Provision of corporate management services
Wah Fung Book Store Limited 華風書局有限公司	Hong Kong	Limited liability company	HK\$796,000	–	100	Publication
北京中錄音像有限責任公司	The People's Republic of China, other than Hong Kong ("PRC")	Limited liability company	RMB500,000	–	80	Distribution of audio and video tapes

With the exception of StarEastNet (BVI) Limited and First Brilliant Limited, all the subsidiaries were indirectly held by the Company.

None of the subsidiaries had any debt securities outstanding during the year or at the end of the year.

The above table only lists those subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group, to give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

During the year, the directors of the Company reviewed the carrying amount of the interests in subsidiaries in light of current market condition with reference to the financial results and business operated by certain subsidiaries. An impairment of approximately HK\$13,589,000 (2003: Nil) in respect of investment in subsidiaries was identified.

16. AMOUNTS DUE FROM SUBSIDIARIES

	THE COMPANY	
	2004	2003
	HK\$'000	HK\$'000
Amounts due from subsidiaries	700,618	660,735
Allowances for bad and doubtful debts	(649,947)	(558,942)
	50,671	101,793

The amounts are unsecured, non-interest bearing and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be repaid within the next twelve months.

At 31 March 2004, the directors reviewed the carrying value of the amounts due from its subsidiaries with reference to the businesses operated by these subsidiaries. Allowances of HK\$91,005,000 (2003: HK\$312,000,000) have been recognised in the Company's income statement.

17. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Share of net assets	3,295	–

Details of the associate at 31 March 2004 were as follows:

Name of an associate	Form of business structure	Place of registration/ operations	Attributable equity interests held by the Group	Principal activities
北京中青在線網絡 信息技術有限公司	Sino-foreign joint venture	PRC	25%	Provision of networking and information services



18. INVESTMENTS IN SECURITIES

	THE GROUP	
	Other investments	
	2004	2003
	HK\$'000	HK\$'000
Listed equity securities in Hong Kong, at fair value	1,583	1,333
Unlisted equity securities outside Hong Kong, at fair value	232	–
	1,815	1,333
Market value of listed securities in Hong Kong	1,583	1,333

19. INVENTORIES

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Goods for sale	1,982	723
Printing materials	623	773
Computer equipment for sale	–	22
	2,605	1,518

At 31 March 2003, inventories included an amount of HK\$33,000 of goods for sales carried at net realisable value.

20. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 30 days to 60 days to its trade customers. The following is an aged analysis of trade receivables at the balance sheet date:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
0 – 30 days	4,408	6,001
31 – 90 days	5,271	6,766
Over 90 days	3,161	3,999
Trade receivables	12,840	16,766
Other receivables	5,533	6,729
	18,373	23,495

Notes to the Financial Statements

For the year ended 31 March 2004

21. TRADE AND OTHER PAYABLES

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

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Up to 30 days	3,528	8,315
31 – 90 days	3,595	5,550
Over 90 days	1,266	1,479
Trade payables	8,389	15,344
Other payables	8,720	10,583
	17,109	25,927

22. AMOUNT DUE TO A SHAREHOLDER

The amount due to a shareholder of the Group represents the unsecured advances from a shareholder which bear interest at a rate of 7.0% per annum and is repayable on demand.

23. OBLIGATIONS UNDER FINANCE LEASES

	Minimum		Present value of	
	lease payments		minimum lease payments	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP				
Amounts payable under finance leases:				
Within one year	9,819	8,313	9,407	7,613
In the second to fifth year inclusive	2,811	10,112	2,749	9,790
	12,630	18,425	12,156	17,403
Less: Future finance charges	(474)	(1,022)		
Present value of lease obligations	12,156	17,403		
Less: Amount due for settlement				
within one year				
(shown under current liabilities)			(9,407)	(7,613)
Amount due for settlement after one year			2,749	9,790



23. OBLIGATIONS UNDER FINANCE LEASES (continued)

It is the Group's policy to lease certain of its machinery under finance leases. The average lease term is four years. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

An amount of HK\$5,000,000 (2003: HK\$5,000,000) has been placed with a finance company as security for the repayment of the remaining instalments.

24. ADVANCES FROM A RELATED COMPANY

The amounts of the Group and the Company represent the unsecured loans granted by the holding company of a substantial shareholder of the Company which bear interest at Hong Kong prime interest rate per annum and are repayable on 30 April 2005.

25. LONG-TERM LOANS FROM RELATED COMPANIES

The amounts of the Group and the Company represent the loans granted by the fellow subsidiaries of a company which became a shareholder of the Company after the Special Distribution during the year. The amounts were classified as other loans at 31 March 2003 and carried the same terms as other loans as set out in note 27.

26. LOAN FROM ULTIMATE HOLDING COMPANY

At 31 March 2003, the amount of the Group and the Company was the loan granted by Sun Media, which were unsecured, bore interest at Hong Kong prime interest rate per annum and repayable on the expiry of 30 calendar months after the year end of the first profitable financial year since 24 January 2003 and no later than the twentieth anniversary of 24 January 2003. The amount has been reclassified as other loans at 31 March 2004 as Sun Media ceased to be the ultimate holding company after the Special Distribution.

27. OTHER LOANS

The amounts of the Group and the Company are unsecured, bear interest at Hong Kong prime interest rate per annum and are repayable on the expiry of 30 calendar months after the year end of the first profitable financial year since 24 January 2003 and no later than the twentieth anniversary of 24 January 2003.

28. SHARE CAPITAL

	No. of shares	Amount
		<i>HK\$'000</i>
Ordinary shares		
Authorised:		
At 1 April 2002, shares of HK\$0.10 each	10,000,000,000	1,000,000
Capital reduction, shares of HK\$0.0025 each	–	(975,000)
Share consolidation, shares of HK\$0.05 each and cancellation of authorised share capital upon share consolidation	(9,500,000,000)	–
Increase during the year	1,500,000,000	75,000
	<hr/>	<hr/>
At 31 March 2003 and 2004, shares of HK\$0.05 each	2,000,000,000	100,000
Issued and fully paid:		
At 1 April 2002, shares of HK\$0.10 each	4,163,769,000	416,377
Capital reduction, shares of HK\$0.0025 each	–	(405,968)
Share consolidation, shares of HK\$0.05 each	(3,955,580,550)	–
Rights issue of shares	260,235,656	13,012
Exercise of warrants	75	–
	<hr/>	<hr/>
At 31 March 2003, shares of HK\$0.05 each	468,424,181	23,421
Issue of shares	82,699,800	4,135
	<hr/>	<hr/>
At 31 March 2004, shares of HK\$0.05 each	551,123,981	27,556

During the year ended 31 March 2004, the following changes in the share capital took place:

- (a) Pursuant to a subscription agreement entered into on 15 April 2003, an independent investor subscribed for 50,000,000 ordinary shares of HK\$0.05 each at a price of HK\$0.40 per share, representing a discount of approximately 31% to the closing price of HK\$0.58 per share as quoted on the Stock Exchange on 15 April 2003. The net proceed of approximately HK\$19.9 million were used to develop publishing distribution business – including books, magazines, audio-visual and digital publishing products – with a third party in China and for general working capital to the Company. These shares were issued under the general mandate granted to the directors of the Company at the extraordinary general meeting held on 28 August 2002.



28. SHARE CAPITAL (continued)

- (b) Pursuant to a subscription agreement entered into on 24 June 2003, an independent investors subscribed for 25,828,000 ordinary shares of HK\$0.05 each at a price of HK\$0.42 per share, representing a discount of approximately 35.38% to the closing price of HK\$0.65 per share as quoted on the Stock Exchange on 24 June 2003. Subscription of 10,984,200 ordinary shares were subsequently cancelled. The net proceed of approximately HK\$6.2 million were used to develop publishing business in China and for general working capital to the Company. These shares were issued under the general mandate granted to the directors of the Company at the extraordinary general meeting held on 28 August 2002.
- (c) Pursuant to another subscription agreement entered into on 25 June 2003, an independent investor subscribed for 17,856,000 ordinary shares of HK\$0.05 each at a price of HK\$0.42 per share, representing a discount of approximately 35.38% to the closing price of HK\$0.65 per share as quoted on the Stock Exchange on 24 June 2003. The net proceed of approximately HK\$7.5 million were used to develop publishing business in China and for general working capital to the Company. These shares were issued under the general mandate granted to the directors of the Company at the extraordinary general meeting held on 28 August 2002.

All the shares issued during the year rank *pari passu* with the then existing shares in all respects.

29. WARRANTS

At 31 March 2003, the Company had outstanding of 61,040,039 warrants and these warrants were lapsed after the close of business on 28 May 2003.

Notes to the Financial Statements

For the year ended 31 March 2004

30. RESERVES

	Shareholders' contributions	Share premium	Merger reserve	Exchange reserve	Distributable reserve	Accumulated losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
THE GROUP							
At 1 April 2002	-	118,260	121,914	2,773	-	(403,168)	(160,221)
Reduction of share premium transferred							
to accumulated losses	-	(110,000)	-	-	-	110,000	-
Reduction of share capital transferred							
to distributable reserve and accumulated losses	-	-	-	-	231,340	174,628	405,968
Rights issue of shares	-	91,082	-	-	-	-	91,082
Rights issue expenses	-	(2,697)	-	-	-	-	(2,697)
Waiver of loans							
from shareholders	72,894	-	-	-	-	-	72,894
Released on disposal							
of a subsidiary	-	-	-	(419)	-	-	(419)
Exchange differences							
arising from translation of operations							
outside Hong Kong	-	-	-	(142)	-	-	(142)
Net loss for the year	-	-	-	-	-	(343,735)	(343,735)
At 31 March 2003	72,894	96,645	121,914	2,212	231,340	(462,275)	62,730
Issue of shares	-	29,599	-	-	-	-	29,599
Share issue expenses	-	(169)	-	-	-	-	(169)
Released on disposal							
of a subsidiary	-	-	-	92	-	-	92
Net loss for the year	-	-	-	-	-	(103,865)	(103,865)
At 31 March 2004	72,894	126,075	121,914	2,304	231,340	(566,140)	(11,613)



30. RESERVES (continued)

	Shareholders' contributions	Share premium	Distributable reserve	Contributed surplus	Accumulated losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
THE COMPANY						
At 1 April 2002	-	118,260	-	5,589	(284,628)	(160,779)
Reduction of share premium transferred to accumulated losses	-	(110,000)	-	-	110,000	-
Reduction of share capital transferred to distributable reserve and accumulated losses	-	-	231,340	-	174,628	405,968
Rights issue of shares	-	91,082	-	-	-	91,082
Rights issue expenses	-	(2,697)	-	-	-	(2,697)
Waiver of loans from shareholders	49,087	-	-	-	-	49,087
Net loss for the year	-	-	-	-	(320,489)	(320,489)
At 31 March 2003	49,087	96,645	231,340	5,589	(320,489)	62,172
Issue of shares	-	29,599	-	-	-	29,599
Share issue expenses	-	(169)	-	-	-	(169)
Net loss for the year	-	-	-	-	(112,560)	(112,560)
At 31 March 2004	49,087	126,075	231,340	5,589	(433,049)	(20,958)

The merger reserve of the Group represents the difference between the share capital and share premium of the subsidiaries acquired pursuant to the group reorganisation (the "Group Reorganisation") set out in the prospectus of the Company dated 23 May 2000, over the nominal value of the Company's shares issued in exchange thereof.

The contributed surplus of the Company represents the difference between the book value of the underlying net assets of the subsidiaries acquired by the Company under the Group Reorganisation and the nominal amount of the Company's shares issued for the acquisition.

There were no reserve available for distribution to shareholders of the Company as at 31 March 2004 and 2003.

31. SHARE OPTIONS SCHEME**Pre-IPO Share Option Scheme and Employee Share Option Scheme (“Old Option Scheme”)**

A summary of the major terms of each of the Pre-IPO Share Option Scheme and Old Option Scheme is set out on pages 239 to 245 of the Company’s prospectus dated 23 May 2000.

The options are exercisable in accordance with the terms of the Pre-IPO Share Option Scheme and the Old Option Scheme at any time during a period commencing 1 year after the date of grant and ending 5 years after the date of grant in accordance with the following schedule:

Period since date of grant	Percentage of shares comprised in options which become exercisable
Year 1	zero
Year 2	up to 25%
Year 3	up to 50% (less the percentage of shares which arose upon the exercise of options between the first anniversary and the second anniversary)
Year 4	up to 75% (less the percentage of shares which arose upon the exercise of options between the first anniversary and the third anniversary)
Year 5	all shares in respect of which the options have not been previously exercised

Share Option Scheme adopted on 15 January 2002 (“New Option Scheme”)

On 15 January 2002, the Company adopted the New 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 Option Scheme and Chapter 23 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange. The principal purposes of the New 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 Option Scheme and any other outstanding share option schemes of the Company must not in aggregate exceed 10% 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 of the Company in the general meeting. The New Option Scheme commenced on 15 January 2002 and end on the day immediately prior to the tenth anniversary of 15 January 2002.

The Old Option Scheme and pre-IPO Share Option Scheme were simultaneously terminated and the options which had been granted during the life of the Old Option Scheme were lapsed during the year ended 31 March 2003.

Total consideration received during the year for taking up the options granted is amounted to HK\$10 (2003: Nil).

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



31. SHARE OPTIONS SCHEME (continued)

The following table discloses details of the Company's share options held by the directors, employees and contracted celebrities to the Group and movements in such holdings during the year:

Name of scheme	Date of grant	Exercisable period	Exercise price per share HK\$	Number of options								
				Outstanding as at 1.4.2002	Adjusted on 24.5.2002 (Note i)	Adjusted on 17.9.2002 (Note ii)	Lapsed during the year	Outstanding as at 31.3.2003	Granted during the year	Exercised during the year	Lapsed upon resignation	Outstanding as at 31.3.2004
Directors of the Company												
Pre-IPO Share Option Scheme	26.5.2000	26.5.2000 – 25.5.2005	718	118,750,000	(112,812,500)	7421,875	(15,359,375)	-	-	-	-	-
Old Option Scheme	10.1.2001	10.1.2001 – 9.1.2006	6.70	15,000,000	(14,250,000)	937,500	(1,687,500)	-	-	-	-	-
New Option Scheme	13.8.2003	13.8.2003 – 12.8.2013	0.595	-	-	-	-	-	21,448,000	-	(10,187,800)	11,260,200
				133,750,000	(127,062,500)	8,359,375	(15,046,875)	-	21,448,000	-	(10,187,800)	11,260,200
Directors of the Company's subsidiaries												
Pre-IPO Share Option Scheme	26.5.2000	26.5.2000 – 25.5.2005	718	39,500,000	(37,525,000)	2,468,750	(4,443,750)	-	-	-	-	-
Old Option Scheme	10.1.2001	10.1.2001 – 9.1.2006	6.70	12,500,000	(11,875,000)	781,250	(1,406,250)	-	-	-	-	-
New Option Scheme	13.8.2003	13.8.2003 – 12.8.2013	0.595	-	-	-	-	-	11,796,400	-	-	11,796,400
				52,000,000	(49,400,000)	3,250,000	(5,850,000)	-	11,796,400	-	-	11,796,400
Employees and contracted celebrities to the Group												
Pre-IPO Share Option Scheme	26.5.2000	26.5.2000 – 25.5.2005	718	39,750,000	(37,762,500)	2,484,375	(4,471,875)	-	-	-	-	-
Old Option Scheme	5.9.2000	5.9.2000 – 4.9.2005	10.65	8,000,000	(7,600,000)	500,000	(900,000)	-	-	-	-	-
	10.1.2001	10.1.2001 – 9.1.2006	6.70	5,075,000	(4,821,250)	317,187	(570,937)	-	-	-	-	-
New Option Scheme	13.8.2003	13.8.2003 – 12.8.2013	0.595	-	-	-	-	-	-	-	-	-
				52,825,000	(50,183,750)	3,301,562	(5,942,812)	-	-	-	-	-
				238,575,000	(226,646,250)	14,910,937	(26,839,687)	-	33,244,400	-	(10,187,800)	23,056,600

Notes:

- (i) The number and the exercise price of options which remained outstanding on 24 May 2002 have been adjusted due to share consolidation of the Company for 20 shares into 1 share with effect from the close of business on 24 May 2002.
- (ii) The number and the exercise price of options which remained outstanding on 17 September 2002 have been adjusted due to rights issue on the basis of five rights shares for every four shares at HK\$0.40 per rights share.

32. RELATED PARTY BALANCES AND TRANSACTIONS**I. Related party balances**

	<i>Notes</i>	2004 HK\$'000	2003 <i>HK\$'000</i>
Prepaid airtime to Pacific Convergence Corporation, Limited ("PCC")	<i>(a)</i>	13,802	23,649
Payables to related parties consist of the amounts due to the following companies:			
Amount due to fellow subsidiaries	<i>(b)</i>	-	551

Notes:

- (a) The Group on 24 August 1999 entered into a contract with PCC, an affiliate of PCCW Limited, a company which had a beneficial interest in the Company prior to 24 January 2003, to secure and pre-occupy a future Pan Asia promotion platform for access to airtime, including television and internet. The amount paid by the Group under the contract was approximately US\$6,556,000, equivalent to approximately HK\$50,806,000. This airtime would be used for marketing and promotion purposes. The contract contained, among others, the following terms:
- i. The value of the airtime used by the Group would be based on the then current fees and charges in PCC's rate cards;
 - ii. The airtime must be used by the Group within a two-year period commencing upon the expiry of two years' after the contract date;
 - iii. The airtime might be sold by the Group to third parties provided that it was not at rates lower than PCC's then current rates and charges shown on PCC's rate cards; and
 - iv. Any unused airtime at 24 August 2003 would be forfeited.

On 9 March 2000, the Group and PCC agreed to modify the terms and conditions of this contract. Pursuant to the new agreement consideration for the airtime was reduced to approximately US\$5,394,000 from approximately US\$6,556,000 and the term of usage of airtime was extended to 23 February 2004. The Group had received a cash refund from PCC in the amount of approximately US\$1,162,000, equivalent to approximately HK\$9,000,000, in March 2000.

On 14 November 2003, an extension agreement has been signed to extend the expiry date of advertising services to 23 August 2004.

Airtime of approximately HK\$9,847,000 (2003: HK\$6,157,000) under the contract had been utilised for the year.

At 31 March 2003, the directors reviewed the carrying value of the remaining airtime with reference to the future airtime expected to be utilised. An impairment loss of HK\$12,000,000 was identified and recognised in the income statement.



32. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

I. Related party balances (continued)

- (b) The amounts due to group companies of Sun Media are unsecured, interest free and have no fixed repayment terms. Sun Media ceased to be the ultimate holding company of the Company after the Special Distribution.

In addition to the above, the details of the related parties balances are set out in notes 22, 24, 25 and 26.

II. Related party transactions

The Group entered into the following transactions with related parties during the year:

	Notes	2004 HK\$'000	2003 HK\$'000
Administrative service fee	(a)	119	119
Advertising income	(b)	112	4,864
Advertising, promotion and movie sponsorship expenses	(c)	-	1,854
Airticket and hotel expenses	(d)	170	526
Distribution income	(e)	-	40
Interest expenses on amount due to a shareholder	(22)	61	-
Interest expenses on advances from a related company	(24)	24	-
Interest expenses on loans from related companies/ ultimate holding company/other loans/ former shareholders	(f)	3,009	6,200
Legal consulting services fee	(g)	-	533
Licence fee income	(h)	372	46
Office rent and building management expenses	(i)	-	188
Salaries	(j)	-	1,438
Technical consulting services fee	(k)	-	1,456
Trademark licence fee expense	(l)	-	45

Notes:

- (a) Administrative service fee was paid to Sun TV Cybernetworks Enterprises Ltd. ("Sun Enterprises"), and was charged at pre-agreed price. Sun Enterprise was a wholly-owned subsidiary of Sun Media up to May 2003 and it became a fellow subsidiary of a substantial shareholder of the Company.

32. RELATED PARTY BALANCES AND TRANSACTIONS (continued)**II. Related party transactions (continued)**

Notes: (continued)

- (b) Advertising income for the year ended 31 March 2004 was received from Sun Media before the completion of the Special Distribution. Advertising income was received from China Strategic Holdings Limited ("CSH"), Star East Holdings Limited ("SEH"), Ananda Wing On Advertising Co., Ltd. and Tung Fong Hung (Marketing) Limited, affiliates of CSH, Paul Y. ITC Construction Holdings Limited, companies having beneficial interests in the Company prior to 24 January 2003, and Sun Satellite Television Co. Ltd. ("Satellite"), a wholly-owned subsidiary of Sun Media up to May 2003. The amount was charged in accordance with the Group's usual scale charges.
- (c) The advertising, promotion and movie sponsorship expenses were paid to SEH and Satellite. The amount represented the actual advertising and promotion expenses incurred on behalf of the Group.
- (d) Airticket and hotel expenses were paid to Wing On Travel Ltd., which were charged at market prices.
- (e) The distribution income was received from ITC Corporation Limited, a company having beneficial interest in the Company prior to 24 January 2003, which was charged at market price.
- (f) Interest expenses for the loans from SEH, Hanny Group Limited ("Hanny"), PCCW Limited, Gold Miracles Limited ("GML") and Glory Dynamic Limited, an affiliate of CSH, who had beneficial interests in the Company prior to 24 January 2003 and Sun Media was the ultimate holding company up to 8 December 2003. Interest expenses were calculated at Hong Kong prime interest rate per annum in accordance with the loan agreements.
- (g) The legal consulting services fee paid to Messrs. Lu, Lai & Li was charged at prices negotiated by reference to market rates. Mr. Dominic Lai, a former independent non-executive director of the Company up to 25 February 2003, is a senior partner of Messrs. Lu, Lai & Li.
- (h) Licence fee was received from Sun Enterprises which was charged at pre-agreed price.
- (i) For the year ended 31 March 2003, the office rent and building management expenses of approximately HK\$188,000 were paid to group companies of M Channel Corporation Limited. The amounts were charged at pre-agreed fixed monthly rates by reference to market prices of similar transactions.



32. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

II. Related party transactions (continued)

Notes: (continued)

- (j) The salaries were reimbursed to SEH for the secondment of certain employees to the Group or services provided by employees of SEH for business of the Group. The amounts represented the actual amounts incurred by SEH.
- (k) The technical consulting services fee was paid to PCCW. The amount represented the actual amount incurred by PCCW on behalf of the Group plus a percentage of mark-up.
- (l) The trademark licence fee was paid to SEH which was charged at pre-agreed rate and in accordance with the terms of the trademark licence agreement.

In addition to the above, the Group also entered into the following related party transactions during the year ended 31 March 2003:

- (i) Pursuant to a deed of settlement entered into among the Company, Sing Pao Newspaper, a wholly-owned subsidiary of the Company, and respective wholly-owned subsidiaries of CSH, Hanny and SEH (collectively referred to as the "Creditors"), the substantial shareholders of the Company before the 24 January 2003, the Creditors agreed to reduce the total outstanding amount of the loans due from the Group to HK\$60,000,000 (the "Reduced Loan") and to waive the remaining outstanding balance. The Reduced Loan is unsecured, bears interest at Hong Kong prime interest rate per annum and is repayable on the expiry of 30 calendar months after the year end of the first profitable financial year after 24 January 2003 provided that the payment date shall not fall after the twentieth anniversary of the date of 24 January 2003.

Pursuant to assignment deeds entered into among the Company, Sing Pao Newspaper, the Creditors and Sun Media, the creditors agreed to assign HK\$40,000,000 out of the reduced loan to Sun Media. The consideration was satisfied by the issue and allotment of 400,000,000 new ordinary shares of HK\$0.02 each in Sun Media.

- (ii) The Group acquired Topspin Associates Limited, a subsidiary of M Channel, at a consideration of HK\$900,000.
- (iii) The Group sold property, plant and equipment to SEH at a consideration of approximately HK\$488,000. The amount was charged in accordance with terms agreed between both parties and by reference to market prices.

33. ACQUISITION OF A SUBSIDIARY

	2004	2003
	HK\$'000	HK\$'000
NET ASSETS ACQUIRED:		
Property, plant and equipment	12	981
Investments in securities	232	–
Trade and other receivables	485	904
Bank balances and cash	145	554
Trade and other payables	(742)	(1,077)
Minority interests	(26)	–
	106	1,362
Goodwill arising on acquisition	1,764	534
Interest in an associate	–	(185)
	1,870	1,711
SATISFIED BY:		
Cash	1,870	1,711

Analysis of net outflow of cash and cash equivalents in connection with the acquisition of subsidiaries:

	2004	2003
	HK\$'000	HK\$'000
Cash consideration	(1,870)	(1,711)
Bank balances and cash acquired	145	554
	(1,725)	(1,157)

The subsidiaries acquired during the year contributed HK\$179,000 (2003: HK\$9,305,000) to the Group's revenue, HK\$27,000 (2003: HK\$5,912,000) to the Group's loss before minority interests.



34. DISPOSAL OF SUBSIDIARIES

	2004	2003
	HK\$'000	HK\$'000
NET ASSETS DISPOSED OF:		
Property, plant and equipment	2,938	1,380
Interest in an associate	–	49
Inventories	103	–
Trade and other receivables	4,955	2,991
Bank balances and cash	13,393	306
Trade and other payables	(1,415)	(5,656)
Other investment	–	2,147
	19,974	1,217
Exchange reserve realised	92	(419)
Attributable goodwill	–	514
Loss on disposal of subsidiaries	(4,913)	(282)
Reclassification to interest in an associate	(3,791)	–
	11,362	1,030
SATISFIED BY:		
Cash	11,362	1,030
Analysis of net (outflow) inflow of cash and cash equivalents in connection with the disposal of subsidiaries:		
Cash consideration received	11,362	1,030
Bank balance and cash disposed of	(13,393)	(306)
	(2,031)	724

The subsidiaries disposed of during the year contributed HK\$2,526,000 (2003: HK\$10,968,000) to the Group's revenue, HK\$4,485,000 (2003: HK\$13,237,000) to the Group's loss before minority interests, and HK\$4,428,000 (2003: HK\$13,307,000) to the Group's net operating cash flow.

35. MAJOR NON-CASH TRANSACTIONS

- (a) For the year ended 31 March 2004, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the finance leases of H\$K2,572,000 (2003: Nil).
- (b) For the year ended 31 March 2003, pursuant to a deed of settlement entered into among the Company, Sing Pao Newspaper, a wholly-owned subsidiary of the Company, and respective wholly-owned subsidiaries of certain former shareholders, the former shareholders agreed to reduce the total outstanding loans due from the Group of HK\$104,310,000 to HK\$60,000,000 and to waive the remaining balance of HK\$44,310,000.
- (c) For the year ended 31 March 2003, pursuant to deeds of settlement entered into between the Company and certain former shareholders agreed to waive the total outstanding loans due from the Group of HK\$28,584,000.

36. DEFERRED TAXATION

The following are the major deferred taxation assets recognised by the Group and movements thereon during the current and prior reporting periods.

	THE GROUP		
	Accelerated tax depreciation	Tax losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 April 2002			
– as previously reported	–	–	–
– adjustment on adoption of SSAP 12 (Revised)	11,710	(11,710)	–
– as restated	11,710	(11,710)	–
Charge (credit) to income for the year	(1,585)	1,585	–
At 1 April 2003	10,125	(10,125)	–
Charge (credit) to income for the year	(1,880)	1,880	–
Effect of change in tax rate charge (credit) to income for the year	949	(949)	–
At 31 March 2004	9,194	(9,194)	–



36. DEFERRED TAXATION (continued)

At 31 March 2004, the Group has unused tax losses of HK\$562,994,000 (2003: HK\$492,569,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$52,536,000 (2003: HK\$63,280,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$510,458,000 (2003: HK\$429,289,000) due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

At 31 March 2004, the Company has unused tax losses of HK\$22,810,000 (2003: HK\$20,129,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams.

37. OPERATING LEASE COMMITMENTS

The Group as lessee

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Minimum lease payments paid under operating leases during the year		
– office premises	4,721	4,969
– internet leased lines	101	391
	4,822	5,360

At the balance sheet date, the Group had commitments for future minimum lease payments which fall due as follows:

	THE GROUP			
	Office premises		Internet leased lines	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	4,326	3,410	66	76
In the second to fifth year inclusive	3,244	579	5	–
	7,570	3,989	71	76

Operating lease payments represent rentals payable by the Group for certain of its office premises and internet leased lines. Leases are negotiated for an average term of three years and rentals are fixed throughout the lease period.

38. CONTINGENT LIABILITIES

At 31 March 2004, the Company has provided a guarantee to a subsidiary, Sing Pao Newspaper in respect of the obligations under finance leases at the net book value of HK\$327,000 (2003: Nil).

39. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme (the "Scheme") for all qualifying employees in Hong Kong. The assets of the Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the Scheme, which contribution is matched by employees.

Total cost charged to income statement of HK\$2,803,000 (2003: HK\$5,384,000) represents contributions payable to the Scheme in respect of the current accounting period. As at 31 March 2004, contributions of HK\$547,000 (2003: HK\$678,000) due in respect of the reporting period had not been paid over to the Scheme.

40. POST BALANCE SHEET EVENT

On 14 April 2004, an agreement was made for a placing of 110,000,000 new ordinary shares of HK\$0.05 each at a price of HK\$0.08 per share, which represented a premium of approximately 11.11% to the closing price per share of HK\$0.072 as quoted on the Stock Exchange on 14 April 2004 and a discount of approximately 13.04% over the average closing price of the shares for the last ten trading days of HK\$0.092 per share. The placing of the shares was completed on 26 April 2004 and the net proceeds would be used for general working capital for the Group.



RESULTS

	Year ended 31 March				
	2000	2001	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	10,375	48,383	71,493	170,846	116,882
Cost of sales	(23,505)	(89,201)	(106,368)	(201,068)	(149,469)
Gross loss	(13,130)	(40,818)	(34,875)	(30,222)	(32,587)
Other operating income	1,063	5,407	6,346	4,431	3,782
Advertising and promotion expenses	(20,073)	(37,597)	(4,723)	(16,051)	(10,357)
Administrative expenses	(47,512)	(81,191)	(63,436)	(81,229)	(53,916)
Impairment losses (recognised) reversed, net	–	–	(11,752)	(207,194)	(1,764)
Unrealised (loss) gain on investments in securities	–	–	(4,500)	(4,167)	250
Cost of streamlining operations	–	(10,666)	(30,703)	–	–
Loss from operations	(79,652)	(164,865)	(143,643)	(334,432)	(94,592)
(Loss) gain on disposal of subsidiaries	–	(2,148)	1,317	(282)	(4,913)
Loss on dilution of interest in an associate	–	–	–	(309)	–
Finance costs	(163)	(6,868)	(6,135)	(8,480)	(3,882)
Share of results of associates	–	(382)	(545)	(232)	(496)
Loss before taxation	(79,815)	(174,263)	(149,006)	(343,735)	(103,883)
Taxation	–	–	–	–	–
Loss before minority interests	(79,815)	(174,263)	(149,006)	(343,735)	(103,883)
Minority interests	–	–	113	–	18
Net loss for the year	(79,815)	(174,263)	(148,893)	(343,735)	(103,865)

ASSETS AND LIABILITIES

	At 31 March				2004
	2000	2001	2002	2003	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets	121,141	198,507	446,819	190,575	122,149
Total liabilities	49,238	104,720	190,663	104,424	106,198
Minority interests	–	–	–	–	8
	71,903	93,787	256,156	86,151	15,943

Notes:

1. The Company was incorporated in the Cayman Islands on 31 January 2000 and became the holding company of the Group on 18 May 2000 as a result of the group reorganisation (the "Group Reorganisation") set out in the prospectus of the Company dated 23 May 2000.
2. The results for each of the two years ended 31 March 2001 and the assets and liabilities as at 31 March 2000 have been prepared using the merger method of accounting as if the group structure immediately after the Group Reorganisation had been in existence through the relevant period.



Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Leadership Publishing Group Limited (the "Company") will be held at 7th Floor, Sing Pao Building, 101 King's Road, North Point, Hong Kong on Tuesday, 28 September 2004 at 10:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and auditors for the year ended 31 March 2004.
2. To re-elect retiring directors and to authorise the board of directors to fix the directors' remuneration.
3. To re-appoint auditors and to authorise the board of directors to fix their remuneration.
4. As special business, to consider and, if thought fit, pass the following resolutions with or without amendments as ordinary resolutions:

ORDINARY RESOLUTIONS

A. **"THAT:**

- (a) subject to paragraph (c) of this resolution and the requirements of the Rules Governing the Listing of Securities on the Growth Enterprises Market of the Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all powers of the Company to allot, issue and deal with additional shares in the capital of the Company or options, warrants, or similar rights to subscribe for any shares and to make or grant offers, agreements and options (including bonds, debentures, notes, warrants or securities convertible into shares of the Company) which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this resolution shall authorise the directors of the Company during the Relevant Period to make and grant offers, agreements and options (including bonds, debentures, notes, warrants or securities convertible into shares of the Company) which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the directors of the Company pursuant to the approval in paragraph (a) of this resolution, otherwise than pursuant to:
 - (i) a Rights Issue (as hereinafter defined);
 - (ii) the exercise of rights of conversion under any existing warrants, bonds, debentures, notes or securities which are convertible into shares of the Company;
 - (iii) an issue of shares of the Company by way of scrip dividend or other similar arrangement providing for the allotment of shares of the Company in lieu of the whole or part of a dividend on shares of the Company pursuant to the articles of association of the Company from time to time; or

Notice of Annual General Meeting

- (iv) the exercise of any options granted under any option scheme or similar arrangement for the time being adopted by the Company for the grant or issue to the eligible persons prescribed thereunder to subscribe for, or rights to acquire, shares of the Company,

shall not in aggregate exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution and the said approval shall be limited accordingly; and

- (d) for the purpose of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held; or
- (iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting;

“Rights Issue” means the allotment or issue of shares in the capital of the Company pursuant to an offer of shares open for a period fixed by the directors of the Company made to holders of shares of the Company or any class thereof whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares or class thereof (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong).”

B. “THAT,

- (a) subject to paragraph (b) of this resolution and the requirements of the GEM Listing Rules, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase its issued shares in the capital of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or any other stock exchange on which shares of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for such purpose and to make offers, agreements and options (including bonds, debentures, notes, warrants or securities convertible into shares of the Company) which might require the exercise of such powers, subject to and in accordance with all the applicable laws, the requirements in the GEM Listing Rules and the rules and regulations of the Securities and Futures Commission and the articles of association of the Company be and is hereby generally and unconditionally approved;



Notice of Annual General Meeting

(b) the aggregate nominal amount of shares of the Company to be repurchased by the Company pursuant to the approval in paragraph (a) of this resolution shall not exceed 10% of the aggregate nominal amount of share capital of the Company in issue as at the date of passing of this resolution and the said approval shall be limited accordingly; and

(c) for the purpose of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held; or

(iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting.”

C. **“THAT** conditional upon the resolutions numbered 4A and 4B in the notice of this meeting being passed, the general mandate granted to the directors of the Company to allot, issue and deal with additional shares pursuant to the said resolution numbered 4A be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of shares repurchased by the Company under the authority granted pursuant to the said resolution numbered 4B.”

5. By way of special business, to consider, and if thought fit, to pass the following resolution, with or without modification, as a special resolution:

SPECIAL RESOLUTION

“THAT the articles of association of the Company adopted on 15 May 2000 be and are hereby amended in the following manner:

(i) by deleting the existing definitions of “associates”, “the Company” or “this Company”, “electronic communication”, “recognized clearing house” and “subsidiary and holding company” in article 1 and inserting the following new definitions in article 1:

““associate(s)” shall have the meaning ascribed to it under the Listing Rules;

“the Company” or “this Company” shall mean Leadership Publishing Group Limited;

“electronic communication” shall mean a communication sent by electronic transmission in any form through any medium;

“recognised clearing house” shall mean a clearing house recognised by the laws of the jurisdiction in which the shares of the Company are listed or quoted on a stock exchange in such jurisdiction;

“subsidiary” and “holding company” shall have the meanings ascribed to such terms in the Listing Rules;”

Notice of Annual General Meeting

(ii) by substituting article 3 with the following new article 3:

"3. Subject to the provisions of these Articles and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such times and for such consideration as the Board may determine provided always that where the Company issues shares which do not carry voting rights, the words "non-voting" shall appear in the designation of such shares and where the equity capital includes shares with different voting rights, the designation of each class of shares, other than those with the most favourable voting rights, must include the words "restricted voting" or "limited voting". Subject to any applicable laws and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof is, liable to the redeemed. No shares shall be issued to bearer for so long as a recognised clearing house (in its capacity as such) is a member of the Company."

(iii) by adding the following immediately after the end of article 75:

"Where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted."

(iv) by substituting article 106(c) with the following new article 106(c):

"106(c) A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Board approving any contract or arrangement or any other proposal whatsoever in which he or any of his associates has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely;

(i) the giving of any security or indemnity either:

(a) to the Director or his associate(s) in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

(b) to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;



- (ii) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iii) any proposal concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or shareholder other than a Company in which the Director and/or his associate(s) is/are beneficially interested in five per cent or more of the issued shares or of the voting rights of any class of shares in such company (or of any third company through which his interest or that of any associates is derived);
- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
 - (a) the adoption, modification or operation of any employees' share option scheme or any share incentive scheme or share option scheme under which the Director or his associate(s) may benefit;
 - (b) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, his associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (v) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

A company shall be deemed to be a company in which a Director and/or his associate(s) owns five (5) per cent or more if and so long as (but only if and so long as) he and/or his associates, (either directly or indirectly) are the holders of or beneficially interested in five (5) per cent or more of any class of the equity share capital of such company or of the voting rights available to members of such company (or of any third company through which his interest or that of any of his associates is derived). For the purpose of this paragraph there shall be disregarded any shares held by a Director or his associate(s) as bare or custodian trustee and in which he or any of them has no beneficial interest, any shares comprised in a trust in which the Director's interest of the Director or his associate(s) is/are in reversion or remainder if and so long as some other person is entitled to receive the income thereof, and any shares comprised in an authorised unit trust scheme in which the Director or his associate(s) is/are interested only as a unit holder.

Where a company in which a Director and/or his associate(s) holds five (5) per cent or more is materially interested in a transaction, then that Director and/or his associate(s) shall also be deemed materially interested in such transaction."

Notice of Annual General Meeting

(v) by deleting article 106(f) in its entirety;

(vi) by substituting article 119 with the following new article 119:

"119 No person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a notice signed by a Member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the registered office provided that the minimum length of the period, during which such notice(s) are given, shall be at least seven (7) days and that (if the notices are submitted after the dispatch of the notice of the general meeting appointed for such election) the period for lodgment of such notice(s) shall commence on the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting."

(vii) by adding the following paragraph immediately after article 162:

"Subject to due compliance with all applicable laws and the Listing Rules, the requirements of this Article shall be deemed satisfied in relation to any person by sending to the person in any manner not prohibited by the applicable laws and instead of such copies, a summarized financial statement derived from the Company's annual accounts and the directors' report which shall be in the form and containing the information required by applicable laws and regulations and the Listing Rules, provided that any person who is otherwise entitled to the annual financial statements of the Company and the directors' report thereon may, if he so requires by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon."

(viii) by substituting article 167 with the following new article 167:

"167 A member shall be entitled to have notice served on him at any address within Hong Kong. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which for the purpose of service of notice shall be deemed to be his registered address. A member who has no registered address in Hong Kong shall be deemed to have received any notice which shall have been displayed at the transfer office and shall have remained there for a period of 24 hours and such notice shall be deemed to have been received by such member on the day following that on which it shall have been first so displayed, provided that, without prejudice to the other provisions of these Articles, nothing in this Article 167 shall be construed as prohibiting the Company from sending, or entitling the Company not to send, notices or other documents of the Company to any member whose registered address is outside Hong Kong. Without limiting the generality of the foregoing but subject to the applicable laws and the Listing Rules from time to time, a notice or document may be served or delivered by the Company to any shareholder by electronic means to such address as may from time to time be authorised by the shareholder concerned or by publishing it on a computer network and notifying the shareholder concerned, in such manner as he may from time to time authorise, that it has been so published."



(ix) by substituting article 168 with the following new article 168:

"168 Any such notice or document may be served or delivered by the Company by reference to the register as it stands at any time not more than fifteen days before the date of service or delivery. No change in the register after that time shall invalidate that service or delivery. Where any notice or document is served or delivered to any person in respect of a share in accordance with these Articles, no person deriving any title or interest in that share shall be entitled to any further service or delivery of that notice or document. Any notice or document sent by post shall be deemed to have been served on the day following that on which it is put into a post office situated within Hong Kong and in proving such service it shall be sufficient to prove that the envelope or wrapper containing the notice or document was properly prepaid, addressed and put into such post office and a certificate in writing signed by the Secretary or other person appointed by the Board that the envelope or wrapper containing the notice or document was so addressed and put into such post office shall be conclusive evidence thereof. Any notice or other document delivered or left at a registered address otherwise than by post shall be deemed to have been served or delivered on the day it was so delivered or left. Any notice served by advertisement shall be deemed to have been served on the day of issue of the official publication and/or newspaper(s) in which the advertisement is published (or on the last day of issue if the publication and/or newspaper(s) are published on different dates). Any notice or document, if sent by electronic means (including through any relevant system), shall be deemed to have been given on the day following that on which the electronic communication was sent by or on behalf of the Company. Any notice or document served or delivered by the Company by any other means authorised in writing by the shareholder concerned shall be deemed to have been served when the Company has carried out the action it has been authorised to take for that purpose. The Board may from time to time specify the form and manner in which a notice may be given to the Company by electronic means, including one or more addresses for the receipt of an electronic communication, and may prescribe such procedures as they fit for verifying the authenticity or integrity of any such electronic communication. Any notice may be given to the Company by electronic means only if it is given in accordance with the requirements specified by the Board."

By Order of the Board
Leadership Publishing Group Limited
MAK Tak Ping
Company Secretary

Hong Kong, 30 June 2004

Notice of Annual General Meeting

Head office and principal place of business:

7th Floor
Sing Pao Building
101 King's Road
North Point
Hong Kong

Registered office:

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
Cayman Islands
British West Indies

Notes:

1. A member of the Company entitled to attend and vote at the meeting by the above notice is entitled to appoint one or more proxies to attend and vote instead of such member. A proxy need not be a member of the Company.
2. A form of proxy in respect of the meeting is enclosed. Whether or not you intend to attend the meeting in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon.
3. In order to be valid, the form of proxy together with a power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority must be deposited with the head office and principal place of business of the Company at 7th Floor, Sing Pao Building, 101 King's Road, North Point, Hong Kong not less than forty eight hours before the time appointed for holding the meeting or any adjournment thereof.
4. Where there are joint holders of a share of the Company, any one of such holders may vote at the meeting either personally or by proxy in respect of such share as if he were solely entitled thereto, but if more than one of such holders be present at the meeting personally or by proxy, that one of such holders so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof. Several executors or administrators of a deceased member in whose name any share stands shall for this purpose be deemed joint holders thereof.
5. An explanatory statement as required by the GEM Listing Rules in connection with the proposals for re-election of directors, general mandates to issue and repurchase shares and proposed amendments to articles of association of the Company respectively under the resolutions numbered 2, 4B and 5 above will be despatched to the shareholders of the Company together with the 2004 Annual Report of the Company.

