星美出版集團有限公司
SMI PUBLISHING GROUP LIMITED

SMI PUBLISHING GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

Annual Report 2005

年報

成報
1939年創刊
SING PAO
daily news

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

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

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

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

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

This annual report, for which the directors (the "Directors") of SMI Publishing Group Limited (formerly known as Leadership Publishing Group Limited) (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. 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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Corporate Information

BOARD OF DIRECTORS
XING Jing* *(Chairman)*
CUI En Qing*
LI Kai*
HAO Bin*
LIN Ning*
KWOK Yat Ming**
SHI Bin Hai***
YAN Chun***
CHAN Ngai Sang Kenny***

Executive Directors
** *Non-executive Director*
*** *Independent Non-executive Directors*

(* = *Executive Directors*)

QUALIFIED ACCOUNTANT
LAM Chun Por Paul

COMPANY SECRETARY
LAM Ka Wai Graham

AUTHORISED REPRESENTATIVE
XING Jing
LIN Ning

COMPLIANCE OFFICER
XING Jing

AUDIT COMMITTEE
CHAN Ngai Sang Kenny
SHI Bin Hai
YAN Chun

AUDITORS
Deloitte Touche Tohmatsu
Certified Public Accountants

LEGAL ADVISER
Conyers Dill and Pearman

PRINCIPAL BANKERS
The Hongkong and Shanghai Banking Corporation Limited
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
Computershare Hong Kong Investor Services Limited
Rooms 1712–1716
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

WEBSITE
www.singpao.com

STOCK CODE
8010

Biographical Information of Directors

EXECUTIVE DIRECTORS

Mr. XING Jing, aged 47, joined the board of the Company (the "Board") in March 2004. He is the Chairman and Executive Director of the Company and is responsible for the overall strategic development and corporate finance of the Group. Mr. Xing holds a master degree in computer science from the Graduate School of Peking University. He 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. He is also a director of a number of subsidiaries of the Company.

Mr. Xing is currently the President of Strategic Media International Limited, which is a controlling shareholder of SMI Corporation Limited ("SMI"), which is listed on the Main Board. He is also the Deputy Chairman and Executive Director of SMI. Mr. Xing holds 43,000,000 share options of SMI. He is also the Deputy Chairman and the Executive Director of M Channel Corporation Limited, which is listed on GEM.

Mr. CUI En Qing, aged 61, joined the Board 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).

Mr. LI Kai, aged 44, was appointed as the Executive Director of the Company in September 2004 and is responsible for the strategic development and operation of the Group. Mr. Li graduated from the Post-graduate School of the Chinese Institute of Social Science and has over 15 years' experience in corporate management both in the PRC and the United States of America. Prior to joining the Company, Mr. Li was the President of Dongfeng Hongtai Investments Holdings Limited, a property investment company in Beijing, the PRC. Mr. Li was nominated by Strategic Media International Limited, a substantial shareholder of the Company, to the Board.

Mr. HAO Bin, aged 41, was appointed as the Executive Director of the Company in October 2004 and is responsible for the overall strategic development of the Group in terms of business development. Mr. Hao graduated from the faculty of news in the Beijing Broadcasting College and has been engaged as general manager of enterprises in Beijing, the PRC which specializes in the media industry. Mr. Hao is also the Vice-President of Stellar Megamedia Group Limited.

Mr. LIN Ning, aged 52, was appointed as the Executive Director of the Company in February 2003 and is responsible for the strategic development and operation of the Group. Mr. Lin is a media professional with over 20 years' experience in news gathering and media advertising marketing. He was the Deputy General Manager of Ta Kung Pao and the General Manager of Asia Television Enterprises Limited and is responsible for programme distribution in overseas market and advertising marketing promotion in the PRC.

NON-EXECUTIVE DIRECTOR

Mr. KWOK Yat Ming, aged 47, 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. Mr. Kwok obtained a bachelor degree in Chinese from Hua Zhong Normal University in 1984 and a diploma of master of arts degree course from Jinan University in the PRC in 1987. He had 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 and deputy chief 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. SHI Bin Hai, aged 43, was appointed as the Independent Non-executive Director of the Company in April 2004. Mr. Shi graduated in 1983 with a law degree of Hua Dong Zheng Fa Xue Yuan and has over 20 years' experience 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. YAN Chun, aged 43, was appointed as the Independent Non-executive Director of the Company in September 2004. He graduated from Renmin University of China and has about 20 years' experience in newspaper publication. Currently, Mr. Yan is the Deputy General Manager of Beijing Youth Report Xiao Hong Mao Publishing Company.

Mr. CHAN Ngai Sang, Kenny, aged 40, was appointed as the Independent Non-executive Director of the Company in July 2005. Mr. Chan graduated from the University of New South Wales with a degree in bachelor of commerce. He is a member of the Institute of Chartered Accountants of New Zealand, The Association of International Accountants, CPA Australia, the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. Mr. Chan is a founder and currently a partner of a firm of Certified Public Accountants in Hong Kong. He has over 15 years' experience in accounting, taxation, auditing and corporate finance. Mr. Chan is also an independent non-executive director of Golding Soft Limited, which is a company listed on GEM.

BUSINESS REVIEW

For the year ended 31 March 2005, the Group recorded a turnover of approximately HK$108,696,000, representing a decrease of 7% as compared with last year. The main reasons for the decrease in turnover were the disposal of Wide Angle Magazine in February 2004 and the reduction of equity interest in China Youth on line to 25% in July 2003, the turnover of which were not consolidated to the Group's account and also resulting from the fierce market competition.

Net loss for the year ended 31 March 2005 was approximately HK$100,692,000, decreased by 3.1% as compared to last year. Besides the reason of decrease in turnover due to fierce market competition, the results for the year under review was also affected by the printing costs for the year under review due to the global continuous increase in cost of papers and increased consumption resulting from the increase in contents of Sing Pao Daily News ("SPDN"), the total printing paper cost increased by approximately HK$7.5 million compared to last year.

In order to strengthen the competitiveness of SPDN, the advertising and promotion expenses was increased by 79%. Furthermore, as most of the prepaid airtime contracts are utilized in this financial year, its amortization has increased by HK$5,108,000 compared to last year.

However, under stringent and persistent cost control measures, the Group has recorded a decrease of administrative expenses by 27%.

Finance costs have increased by 22.3% compared to last year due to increase in shareholder's loan to finance the operating expenses of SPDN.

FINANCIAL RESOURCES

In April 2004, the Company entered into a placing agreement with Kingsway Financial Services Limited ("Kingsway"). Kingsway, acting as the agent of the Company, agreed to use its best endeavors to place 110,000,000 new shares of the company at HK$0.08 per share to at least six independent third parties. The placing was completed on 26 April 2004 and the net proceeds of HK$8,440,000 was raised as general working capital for the Group, mainly used for the operating expenses for SPDN.

In July 2004, the Company and Kingsway entered into the Underwriting Agreement in relation to the underwriting arrangement of the proposed rights issue of not less than 330,561,990 rights shares of HK$0.05 each on the basis of one rights share for every two existing shares held by the qualifying shareholders on the record date payable in full on acceptance. The Rights Issue was completed on 8 September 2004 and the net proceed of HK$15,300,000 was raised as general capital for the Group, mainly used for the operating expenses for SPDN.

During the year under review, the shareholder's loan from Strategic Media International Limited ("SMIL"), a substantial shareholder of the Company, was increased by HK$26,700,000 which was mainly used for the operating expenses for SPDN.

As at 31 March 2005, the total outstanding shareholder loans due to SMIL was amounted to HK$39.7 millions and the utilized amount of a facility of HK$20,000,000 granted by SMIL to the Company was amounted to HK$19,400,000.

As at 31 March 2005, the Group's gearing ratio was 131.5%, compared with 64.9% in 2004. The gearing ratio was calculated by dividing the sum of long-term liabilities by total assets.

As at 31 March 2005, the Group has two litigations arising from its normal newspaper business in Hong Kong, the outcomes of which are not ascertainable at present. A writ of Summons was received regarding the claim for the rental of office premises of the Group together with the miscellaneous fees in the sum of approximately HK$2,305,098 for the tenancy period from September to December 2004. The Group is seeking to resolve it in an amicable way with the landlord and HK$2,665,475 was paid before 31 March 2005.

The Group's income is primarily denominated in Hong Kong dollars while the production cost are largely denominated in Hong Kong dollars and US 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

The turnover of the Group was derived from SPDN. To further enhance the production efficiency of the newspaper, SPDN implemented comprehensive computerization of its editorial system and restructured its production units.

The first of May was a great day to celebrate the 65th Anniversary of SPDN. Over 500 guests from all walks of life attend the grand celebration held in the Hong Kong Convention and Exhibition Center.

In June, SPDN joined hands with PCCW to hold YP card lucky draw for the UEFA Euro 2004. HK$800,000 worth of prizes were presented. In this one-month activity more than 6,000 readers participated in the lucky draw and increasing sales at the same time . The Group and PCCW cooperated again to provide free gift of magnetic clips to the readers. At the gift giving day SPDN were sold out in the morning at most of the main newspaper stalls.

Caring for those who like football, we have published exclusive special edition for Euro 2004 by placing at the Hong Kong Jockey Club OCB Branches during the event. The free special edition reported the first hand information about Euro 2004, which was highly appraised by football lovers.

Sing Pao Publishing

Sing Pao Publishing Limited ("SPP"), a wholly owned subsidiary, was formed in August 2004 and is engaged in publishing of books from renowned writers mainly from Hong Kong and China. For the year ended 31 March 2005, SPP has published 4 kinds of books and were well received by readers.

News and Entertainment website

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 and visitors had been expanded to not only the younger group and also non-SPDN readers.

PROSPECTS

SPDN engraved the longest history in Hong Kong with the mission of natural, creative and innovative. Looking ahead, the Group will continue to focus on its core business of SPDN and will explore the business opportunity in publishing industry and electronic media markets of the Greater China Region in order to broaden the source of revenue.

NUMBER OF EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2005, the Group employed approximately 367 (2004: 407) employees. Employees' remuneration packages are reviewed and determined by reference to the market pay and individual performance.

Chairman's Statement

The Hong Kong economy has exhibited a solid, broad-based upturn for this financial year. The second phase of the Mainland-Hong Kong Closer Economic Partnership Arrangement from August 2004, providing further liberalization measures on trade in goods and services on top of its first phase. After more than five years of decline, the monthly consumer prices rose again since July 2004. The opening of Hong Kong Disneyland in this September promises not only an exciting ride for theme park patrons, but for the hotel, retail, stock market which all stand to benefit and will also increase the advertising income of the media industry.

The population in Hong Kong is kept well informed by a vigorous media. They have a vast appetite for news and this demand has given rise to a healthy and outward-looking press, radio, television industry that enjoys a complete freedom of expression. However, the local printed media is expected to face new challenges from competing free newspapers and increasing newsprint costs. Competition among paid publications and free circulars such as Metro and Headline Daily, could depress yield and increase costs to our Group.

In order to improve the content of our newspaper, special edition and exclusive version for different interests will be added. The Group will also seek opportunities to enter into the blooming digital media market. The Group intends to form a joint venture with a relevant Mainland print media company.

I wish to thank the Board of Directors for their professional advice and guidance during the past financial year. I also wish to thank our shareholders and business partners for their continued support and trust. I must of course thank our staff teams for their commitment and hard work and I know I can count on their good work for the Group's success.

Xing Jing
Chairman

Hong Kong, 27 July, 2005

Directors' Report

The Directors present their report together with the audited financial statements for the year ended 31 March 2005.

CHANGE OF NAME

Pursuant to a special resolution passed at an extraordinary general meeting held on 7 December 2004, the name of the Company was changed from Leadership Publishing Group Limited (現代旌旗出版集團有限公司) to SMI Publishing Group Limited (星美出版集團有限公司).

PRINCIPAL ACTIVITIES

The Company is an investment holding company with its shares listed on the Growth Enterprise Market ("GEM") of the Hong Kong Stock Exchange 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 2005 is set out in the consolidated income statement on page 18.

No dividend was paid during the year.

SHARE CAPITAL

During the year, the Company issued 440,561,990 shares at a total consideration of HK$25,328,000 pursuant to share placement and rights issue. Details of them are set out in note 27 to the financial statements.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 28 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 2005, the largest customer of the Group and together with the next four largest customers accounted for 55% and 65%, 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 Rules Governing the Listing of Securities on GEM of the Stock Exchange ("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:

XING Jing* *(Chairman)*	(redesignated as executive Director on 31 May 2004 and appointed as Chairman on 13 October 2004)
CUI En Qing*	(resigned from Chairman and redesignated as executive Director on 13 October 2004)
LI Kai*	(appointed on 29 September 2004)
HAO Bin*	(resigned as non-executive Director on 31 May 2004 and appointed as executive Director on 28 October 2004)
LIN Ning*	
KWOK Yat Ming**	
SHI Bin Hai***	(appointed on 6 April 2004)
YAN Chun***	(appointed on 29 September 2004)
CHAN Ngai Sang Kenny***	(appointed on 7 July 2005)
LAM Cheung Shing Richard***	(appointed on 6 April 2004 and resigned on 28 April 2005)
SHIN Kei Yin Stephen**	(redesignated from executive Director to non-executive Director on 31 May 2004 and resigned on 14 June 2004)
TANG Yuen Ching Irene*	(resigned on 16 April 2004)

* *Executive Directors*
** *Non-executive Director*
*** *Independent Non-executive Directors*

In accordance with Article 98 of the Articles of Association of the Company, Messrs. CHAN Ngai Sang Kenny, HAO Bin, LI Kai and YAN Chun shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In accordance with Article 115 of the Articles of Association of the Company, Messrs. LIN Ning shall retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

The length of the term of appointment of independent non-executive Directors is one year. There is no fixed length of term of appointment of non-executive Director.

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 2005, 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	Exercise price per share HK$	Number of share options outstanding as at 31 March 2005
LIN Ning	13.8.2003	13.8.2003–12.8.2013	0.395	6,434,400

b. Associated Corporation — SMI Corporation Limited

Share option

Name of Director	Date of grant	Exercisable period	Exercise price per share HK$	Number of share options outstanding as at 31 March 2005
XING Jing	28.7.2003	28.1.2004–27.1.2007	0.033	43,000,000

Save as disclosed above, none of the Directors or their associates had, as at 31 March 2005, any interests or short positions in any shares, underlying shares of the Company or any of its associated corporations.

Save as disclosed above, at no time during the year was the Company or its subsidiaries 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 SCHEME

At the extraordinary general meeting of the Company held on 15 January 2002, a share option scheme (the "Option Scheme") was adopted. A summary of the Option Scheme is as follows:

1. **Purpose**
   The purposes of the Option 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 Company (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 Option 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 Option 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 of the Company 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 Option 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 Option Scheme.

7. **Basis of determining the exercise price**
   The subscription price for the share under the Option Scheme shall be a price determined by the board of the Company 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 five business days immediately preceding the offer date; and (iii) the nominal value of a share.

8. Remaining life of the Option Scheme

The Option 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 options Balance as at 1.4.2004	Lapsed upon resignation	Adjusted on 6.9.2004 *(note)*	Balance as at 31.3.2005
Category 1:							
Directors							
LIN Ning	13.8.2003	13.8.2003–12.8.2013	0.395	4,289,600	—	2,144,800	6,434,400
TANG Yuen Ching Irene	13.8.2003	13.8.2003–12.8.2013	0.395	2,681,000	(2,681,000)	—	—
				6,970,600	(2,681,000)	2,144,800	6,434,400
Category 2:							
Employees	13.8.2003	13.8.2003–12.8.2013	0.395	16,086,000	(5,362,000)	5,362,000	16,086,000
				23,056,600	(8,043,000)	7,506,800	22,520,400

Note: The number and the exercise price of options which remained outstanding on 6 September 2004 have been adjusted due to rights issue on the basis of one rights share for every two shares at HK$0.05 per rights share. The exercise price per share was adjusted from HK$0.593 to HK$0.395.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2005, 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 are as follows:

Name of shareholders	Capacity	No. of shares of the Company held	Approximate percentage of shareholding
QIN Hui	Held by controlled corporation	261,473,945 *(Note)*	26.37%
Strategic Media International Limited	Beneficial owner and held by controlled corporation	261,473,945 *(Note)*	26.37%

Note: Strategic Media International Limited, wholly owned by Mr. QIN Hui, is the beneficial owner of 259,779,945 shares of the Company. In addition, Strategic Media International Limited is beneficially interested in approximately 48.79% of the issued share capital of SMI Corporation Limited ("SMI"), which is beneficial owner of 1,694,000 shares, or approximately 0.17% of the Company. 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 is interested.

Save as disclosed above, as at 31 March 2005, 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 10% 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 2005 or any time during the year.

CONTRACT OF SIGNIFICANCE AND CONNECTED TRANSACTIONS

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 Tidetime Sun (Group) Limited, formerly known as Sun Media Group Holdings Limited, ("Tidetime") 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 deeds of assignment dated 24 January 2003 (the "Deed of Assignment") entered into among the Company, Sing Pao Newspaper and the Creditors and Tidetime, the Creditors agreed to assign HK$40,000,000 of the Reduced Loan to Tidetime 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 1 August 2004 and 12 May 2005 entered into between the Company as Borrower and Strategic Media International Limited as Lender, the Lender agreed to make available to the Company a short term unsecured loans for the total amount of HK$20,000,000 and HK$48,000,000 respectively to facilitate the Company's working capital.

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 with Rule 5.34 of the GEM Listing Rules concerning board practices and procedures throughout the year.

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all of the independent non-executive Directors are independent.

PURCHASE, SALE AND 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 members of the Audit Committee of the Company on 6 April 2004. Mr. YAN Chun has been appointed as the member of the Audit Committee of the Company on 29 September 2004. Mr. CHAN Ngai Sang Kenny has been appointed as the member of the Audit Committee of the Company on 7 July 2005.

Mr. LAM Cheung Shing Richard has resigned from the Audit Committee of the Company on 28 April 2005. The Company has not complied with the requirement to appoint sufficient number of non-independent Directors as set out in Rule 5.05 (1) of the GEM Listing Rules until 7 July 2005, the date on which Mr. CHAN Ngai Sang Kenny was appointed as member of the Audit Committee of the Company.

The duties of the Audit Committee are to review the annual report and accounts, half-yearly reports 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 2005.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

The Company maintained a sufficient public float throughout the year ended 31 March 2005.

POST BALANCE SHEET EVENT

Details of the post balance sheet event are set in note 39 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
SMI Publishing Group Limited
XING Jing
Chairman & Executive Director

Hong Kong, 27 July 2005

Auditors' Report

Deloitte.
德勤

TO THE SHAREHOLDERS OF SMI PUBLISHING GROUP LIMITED
星美出版集團有限公司
(FORMERLY KNOWN AS 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 18 to 50 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 Institute of Certified Public 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 taken by the directors to improve the position. Provided that additional equity funding 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. However, in view of the extent of the uncertainty relating to the future fundings of the Group, we disclaim our opinion in respect of the fundamental uncertainty relating to the going concern basis.

Disclaimer of opinion

Because of the significance of the possible effect of the fundamental uncertainty relating to the going concern basis, we are unable to form an opinion as to whether the financial statements give a true and fair view of the affairs of the Company and the Group as at 31 March 2005 and of the loss and cash flows of the Group for the year then ended. In all other respects, in our opinion, the financial statements have been prepared in accordance with the disclosures requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
27 July 2005

Consolidated Income Statement

For the year ended 31 March 2005

	NOTES	**2005** **HK$'000**	2004 HK$'000
Turnover	*5*	**108,696**	116,882
Cost of sales		**(147,437)**	(149,469)
Gross loss		**(38,741)**	(32,587)
Other operating income		**2,484**	3,782
Advertising and promotion expenses		**(18,555)**	(10,357)
Administrative expenses		**(39,371)**	(53,916)
Unrealised (loss) gain on investments in securities		**(16)**	250
Impairment loss recognised in respect of goodwill of subsidiary		**—**	(1,764)
Loss from operations	*7*	**(94,199)**	(94,592)
Finance costs	*8*	**(4,746)**	(3,882)
Share of results of an associate		**(1,755)**	(496)
Loss on disposal of subsidiaries		**—**	(4,913)
Loss before taxation		**(100,700)**	(103,883)
Taxation	*11*	**—**	—
Loss before minority interests		**(100,700)**	(103,883)
Minority interests		**8**	18
Net loss for the year		**(100,692)**	(103,865)
Loss per share — basic *(HK$)*	*12*	**(0.12)**	(0.21)

Consolidated Balance Sheet

At 31 March 2005

	NOTES	2005 HK$'000	2004 HK$'000
Non-current assets			
Property, plant and equipment	13	**55,780**	74,779
Interest in an associate	17	**1,540**	3,295
Investments in securities	18	**1,799**	1,815
Pledged deposit placed with a financial institution		**—**	5,000
		59,119	84,889
Current assets			
Inventories	19	**1,043**	2,605
Trade and other receivables	20	**14,518**	18,373
Prepaid airtime		**—**	13,802
Pledged deposit placed with a financial institution		**5,000**	—
Bank balances and cash		**2,025**	2,480
		22,586	37,260
Current liabilities			
Trade and other payables	21	**28,480**	17,109
Amount due to a shareholder	22	**378**	357
Tax payable		**—**	—
Obligations under finance leases — due within one year	23	**6,283**	9,407
		35,141	26,873
Net current (liabilities) assets		**(12,555)**	10,387
Total assets less current liabilities		**46,564**	95,276
Non-current liabilities			
Obligations under finance leases — due after one year	23	**459**	2,749
Advances from a substantial shareholder/related company	24	**40,569**	13,024
Long-term loans from related companies	25	**8,155**	7,785
Other loans	26	**58,413**	55,767
		107,596	79,325
Minority interests		**—**	8
		(61,032)	15,943
Capital and reserves			
Share capital	27	**49,584**	27,556
Reserves	28	**(110,616)**	(11,613)
		(61,032)	15,943

The financial statements on pages 18 to 50 were approved and authorised for issue by the Board of Directors on 27 July 2005 and are signed on its behalf by:

DIRECTOR DIRECTOR

Balance Sheet

At 31 March 2005

	NOTES	2005 HK$'000	2004 HK$'000
Non-current asset			
Investments in subsidiaries	15	**—**	—
Amounts due from subsidiaries	16	**8,220**	50,671
		8,220	50,671
Current assets			
Other receivables and prepayments		**408**	67
Bank balances and cash		**29**	—
		437	67
Current liability			
Other payables and accrued charges		**1,888**	1,625
Net current liabilities		**(1,451)**	(1,558)
Total assets less current liabilities		**6,769**	49,113
Non-current liabilities			
Advances from a substantial shareholder/related company	24	**40,569**	13,024
Long-term loans from related companies	25	**4,863**	4,643
Other loans	26	**26,027**	24,848
		71,459	42,515
		(64,690)	6,598
Capital and reserves			
Share capital	27	**49,584**	27,556
Reserves	28	**(114,274)**	(20,958)
		(64,690)	6,598

DIRECTOR

DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 March 2005

	Total equity HK$'000
At 1 April 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	(103,865)
At 31 March 2004	15,943
Issue of shares at premium	25,328
Share issue expenses	(1,611)
Net loss for the year	(100,692)
At 31 March 2005	(61,032)

Consolidated Cash Flow Statement

For the year ended 31 March 2005

	NOTES	2005 HK$'000	2004 HK$'000
OPERATING ACTIVITIES			
Loss before taxation		**(100,700)**	(103,883)
Adjustments for:			
Allowance for bad and doubtful debts		**289**	4,591
Write-down of inventories		**—**	641
Depreciation and amortisation		**19,730**	20,075
Interest income		**(176)**	(235)
Interest expenses		**4,746**	3,882
Loss on disposal of subsidiaries		**—**	4,913
Share of results of an associate		**1,755**	496
Loss on disposal of property, plant and equipment		**538**	996
Unrealised loss (gain) on investments in securities		**16**	(250)
Impairment loss recognised in respect of goodwill of subsidiary		**—**	1,764
Operating cash flows before movements in working capital		**(73,802)**	(67,010)
Decrease (increase) in inventories		**1,562**	(1,831)
Decrease (increase) in trade and other receivables		**3,566**	(3,939)
Decrease in prepaid airtime		**13,802**	9,847
Increase (decrease) in trade and other payables		**11,371**	(8,145)
Decrease in amounts due to fellow subsidiaries		**—**	(551)
NET CASH USED IN OPERATIONS		**(43,501)**	(71,629)
Interest received		**176**	235
NET CASH USED IN OPERATING ACTIVITIES		**(43,325)**	(71,394)
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(822)**	(665)
Proceeds on disposal of property, plant and equipment		**424**	33
Net outflow of cash from disposal of subsidiaries	*32*	**—**	(2,031)
Acquisition of a subsidiary, net of cash and cash equivalents acquired	*31*	**—**	(1,725)
NET CASH USED IN INVESTING ACTIVITIES		**(398)**	(4,388)

Consolidated Cash Flow Statement

For the year ended 31 March 2005

	NOTES	2005 HK$'000	2004 HK$'000
FINANCING ACTIVITIES			
Advances from a substantial shareholder/related company		**27,200**	13,000
Net proceed from issue of shares		**23,717**	33,565
Repayment of obligations under finance leases		**(6,285)**	(7,819)
Repayment of advances from a substantial shareholder/related company		**(500)**	—
Finance lease charges		**(466)**	(788)
Repayment of interest payable to a substantial shareholder/related company		**(398)**	—
Advance from a shareholder		**—**	7,000
Repayment of amount due to a shareholder		**—**	(6,704)
NET CASH FROM FINANCING ACTIVITIES		**43,268**	38,254
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(455)**	(37,528)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**2,480**	40,008
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH		**2,025**	2,480

Notes to the Financial Statements

For the year ended 31 March 2005

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").

The Company is an investment holding company. Its subsidiaries are principally engaged in publication of newspaper, magazine and book 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 liquidity of the Group in light of the Group having net current liabilities of approximately HK$12.6 million and net liabilities of approximately HK$61 million as at 31 March 2005 and having incurred losses during the year then ended.

The Group has been meeting its immediate funding through funds from Strategic Media International Limited ("SMIL"), a substantial shareholder of the Company. SMIL has further advanced HK$4.4 million to the Group subsequent to the balance sheet date in addition to the advances of HK$40.6 million, including interests thereon, already made to the Group at 31 March 2005. Then SMIL has further subscribed for HK$50 million convertible notes of the Group as explained in note 39 replacing advances of HK$45 million to the Group, which brought to the Group additional cash of approximately HK$5 million. Also, the directors of the Company are currently exploring various options for providing additional equity funding 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. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (herein collectively referred to as "new HKFRS(s)") which are effective for accounting periods beginning on or after 1 January 2005 except for HKFRS 3 "Business Combinations". The Company has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005.

The Group has considered these new HKFRSs but does not expect that the issuance of these HKFRSs will have a material effect on how the results of operations and financial position of the Group are prepared and presented.

HKFRS 3 is applicable to business combinations for which the agreement date is on or after 1 January 2005. The Group has not entered into any business combination for which the agreement date is on or after 1 January 2005. Therefore, HKFRS 3 did not have any impact on the Group for the year ended 31 March 2005.

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.

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.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme are charged as expenses as they fall due.

Revenue recognition

Sales of newspapers, magazines and books are recognised when newspapers, magazines and books 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 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

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.

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%

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

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.

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 income statement items that are never taxable or deductible.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts 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 amounts 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 is 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.

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:

	2005	2004
	HK$'000	HK$'000
Sales of newspapers, magazines and books	**60,278**	66,940
Newspapers and magazines advertising income	**48,413**	49,059
Sales of goods, net of discounts and allowances	**5**	179
Internet website content sales	**—**	704
	108,696	116,882

Included in newspapers and magazines advertising income is approximately HK$4,808,000 (2004: HK$2,608,000) 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, magazine and book business		Website business		Others		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Turnover	**108,691**	115,999	**—**	704	**5**	179	**108,696**	116,882
Segment result	**(91,663)**	(81,544)	**—**	(1,305)	**(2,696)**	(10,464)	**(94,359)**	(93,313)
Interest income							**176**	235
Unallocated corporate expenses							**(16)**	(1,514)
Loss from operations							**(94,199)**	(94,592)
Finance costs							**(4,746)**	(3,882)
Share of results of an associate							**(1,755)**	(496)
Net loss on disposal of subsidiaries							**—**	(4,913)
Loss before taxation							**(100,700)**	(103,883)
Taxation							**—**	—
Loss before minority interests							**(100,700)**	(103,883)
Minority interests							**8**	18
Net loss for the year							**(100,692)**	(103,865)
ASSETS								
Segment assets	**76,160**	114,811	**1,646**	1,848	**2,359**	2,195	**80,165**	118,854
Interest in an associate							**1,540**	3,295
Consolidated total assets							**81,705**	122,149
LIABILITIES								
Segment liabilities	**25,414**	14,211	**962**	940	**2,104**	1,958	**28,480**	17,109
Unallocated corporate liabilities							**114,257**	89,089
Consolidated total liabilities							**142,737**	106,198
OTHER INFORMATION								
Capital expenditure								
— property, plant and equipment	**1,693**	3,225	**—**	—	**—**	12	**1,693**	3,237
Depreciation and amortisation	**19,554**	19,452	**172**	615	**4**	8	**19,730**	20,075
Impairment loss of goodwill	**—**	—	**—**	—	**—**	1,764	**—**	1,764
Unrealised loss (gain) on investments in securities	**—**	—	**—**	—	**16**	(250)	**16**	(250)
Allowance for bad and doubtful debts	**289**	841	**—**	—	**—**	3,750	**289**	4,591
Write-down of inventories	**—**	608	**—**	33	**—**	—	**—**	641

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

	2005 HK$'000	2004 HK$'000
Loss from operations has been arrived at after charging (crediting):		
Staff costs, including directors' remuneration and staff redundancy expenses	**79,128**	90,754
Retirement benefit scheme contributions	**3,311**	2,803
Total staff costs	**82,439**	93,557
Depreciation and amortisation of property, plant and equipment:		
Owned assets	**2,491**	3,171
Assets held under finance leases	**17,239**	16,904
Total depreciation and amortisation	**19,730**	20,075
Auditors' remuneration	**520**	592
Write-down of inventories	**—**	641
Allowance for bad and doubtful debts	**289**	4,591
Loss on disposal of property, plant and equipment	**538**	996
Cost of inventories charged as cost of sales	**50,901**	40,147
Interest income	**(176)**	(235)

8. FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Interest on:		
Other loans	**2,646**	2,640
Finance leases	**466**	788
Advances from a substantial shareholder/related company	**1,243**	24
Loans from related companies	**370**	369
Amount due to a shareholder	**21**	61
	4,746	3,882

9. DIRECTORS' REMUNERATION

	2005 HK$'000	2004 HK$'000
Fees:		
Executive directors	—	—
Non-executive directors	—	—
Independent non-executive directors	262	—
	262	—
Other emoluments to executive directors:		
Salaries and other benefits	2,468	4,888
Compensation for loss of office	—	—
Retirement benefit scheme contributions	25	59
	2,493	4,947
	2,755	4,947

There were nine directors who received emoluments of HK$1,035,000, HK$732,000, HK$384,000, HK$156,000, HK$150,000, HK$119,000, HK$95,000, HK$49,000 and HK$35,000, respectively, for the year ended 31 March 2005. For the year ended 31 March 2004, 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. 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 (2004: two) were directors of the Company whose emoluments are included in note 9 above. The emoluments of the remaining three (2004: three) individuals are as follows:

	2005 HK$'000	2004 HK$'000
Salaries and other benefits	2,640	2,820
Retirement benefit scheme contributions	34	24
	2,674	2,844

10. EMPLOYEES' EMOLUMENTS (Continued)

Their emoluments are within the following bands:

	No. of employees 2005	2004
Nil–HK$1,000,000	**2**	2
HK$1,000,001–HK$1,500,000	**1**	1
	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 taxation for the year can be reconciled to the loss per the income statement as follows:

	2005 HK$'000	2004 HK$'000
Loss before taxation	**(100,700)**	(103,883)
Tax at Hong Kong Profits Tax rate of 17.5%	**(17,622)**	(18,180)
Tax effect of share of results of associates	**307**	87
Tax effect of expenses not deductible for tax purpose	**747**	3,395
Tax effect of income not taxable for tax purpose	**—**	(111)
Tax effect of tax losses not recognised	**16,585**	14,704
Effect of different tax rates of operations in other jurisdictions	**—**	105
Utilisation of tax losses previously not recognised	**(17)**	—
Taxation for the year	**—**	—

Details of deferred taxation are set out in note 34.

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$100,692,000 (2004: HK$103,865,000) and the weighted average number of 819,603,000 (2004: 493,817,000) shares in issue during the year.

No disclosure for diluted loss per share as the exercise of the Company's outstanding share options would result in a reduction in loss per share.

The weighted average number of shares for the purpose of calculating basic loss per share for the year ended 31 March 2005 and 2004 has been adjusted for the effect of the rights issue of the Company as detailed in note 27(c).

For the year ended 31 March 2005

13. PROPERTY, PLANT AND EQUIPMENT

	Land and building HK$'000	Leasehold improvements HK$'000	Machinery HK$'000	Furniture, fixtures and equipment HK$'000	Network and computer equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
THE GROUP							
COST							
At 1 April 2004	246	1,528	103,861	3,110	8,727	1,182	118,654
Additions	—	—	—	88	1,605	—	1,693
Disposals	—	—	(1,317)	(473)	(27)	(147)	(1,964)
At 31 March 2005	246	1,528	102,544	2,725	10,305	1,035	118,383
DEPRECIATION, AMORTISATION AND IMPAIRMENT							
At 1 April 2004	26	614	39,220	1,438	2,155	422	43,875
Provided for the year	10	264	17,212	491	1,575	178	19,730
Eliminated on disposals	—	—	(684)	(224)	(16)	(78)	(1,002)
At 31 March 2005	36	878	55,748	1,705	3,714	522	62,603
NET BOOK VALUES							
At 31 March 2005	210	650	46,796	1,020	6,591	513	55,780
At 31 March 2004	220	914	64,641	1,672	6,572	760	74,779

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$45,690,000 (2004: HK$62,446,000) and HK$2,955,000 (2004: HK$2,424,000), respectively.

14. GOODWILL

	THE GROUP HK$000
COST	
At 1 April 2004 and 31 March 2005	8,121
AMORTISATION AND IMPAIRMENT	
At 1 April 2004 and 31 March 2005	8,121
NET BOOK VALUES	
At 31 March 2005 and 31 March 2004	—

The goodwill arose from acquisition of a subsidiary which is mainly engaged in the distribution of audio and video tapes and was fully amortised/impaired prior to 1 April 2004.

15. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY 2005 & 2004 HK$'000
Unlisted shares, at cost	35,589
Impairment loss recognised	(35,589)
	—

Particulars of the Company's principal subsidiaries at 31 March 2005 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 capital/registered capital held by the Company Directly %	Indirectly %	Principal activities
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 成報報刊有限公司	Hong Kong	Limited liability company	HK$2	—	100	Newspaper publication
Sing Pao Publishing Limited 成報出版社有限公司	Hong Kong	Limited liability company	HK$2	—	100	Book 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 capital/registered capital held by the Company Directly %	Indirectly %	Principal activities
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
Wah Fung Book Store Limited 華風書局有限公司	Hong Kong	Limited liability company	HK$796,000	—	100	Investment holding
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

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 ended 31 March 2004, the directors of the Company reviewed the carrying amount of the interests in subsidiaries in light of the market condition with reference to the financial results and business operated by certain subsidiaries. An impairment loss of approximately HK$13,589,000 in respect of investment in subsidiaries was identified and the cost of investments in subsidiaries were fully impaired in that year.

16. AMOUNTS DUE FROM SUBSIDIARIES

	THE COMPANY	
	2005	2004
	HK$'000	HK$'000
Amounts due from subsidiaries	**748,167**	700,618
Allowances for bad and doubtful debts	**(739,947)**	(649,947)
	8,220	50,671

16. AMOUNTS DUE FROM SUBSIDIARIES (Continued)

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 2005, the directors reviewed the carrying value of the amounts due from its subsidiaries with reference to the businesses operated by these subsidiaries. Allowance of HK$90,000,000 (2004: HK$91,005,000) has been recognised in the Company's income statement.

17. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Share of net assets	**1,540**	3,295

Details of the associate at 31 March 2005 are as follows:

Name of 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	
	2005	2004
	HK$'000	HK$'000
Listed equity securities in Hong Kong, at fair value	**1,567**	1,583
Unlisted equity securities outside Hong Kong, at fair value	**232**	232
	1,799	1,815
Market value of listed securities in Hong Kong	**1,567**	1,583

19. INVENTORIES

	THE GROUP 2005 HK$'000	2004 HK$'000
Goods for sale	**339**	1,982
Printing materials	**704**	623
	1,043	2,605

All inventories are stated at cost.

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 2005 HK$'000	2004 HK$'000
0–30 days	**4,637**	4,408
31–90 days	**4,094**	5,271
Over 90 days	**1,061**	3,161
Trade receivables	**9,792**	12,840
Other receivables	**4,726**	5,533
	14,518	18,373

21. TRADE AND OTHER PAYABLES

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

	THE GROUP 2005 HK$'000	2004 HK$'000
0–30 days	**5,250**	3,528
31–90 days	**6,054**	3,595
Over 90 days	**2,497**	1,266
Trade payables	**13,801**	8,389
Other payables	**14,679**	8,720
	28,480	17,109

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 7% (2004: 7%) per annum and is repayable on demand.

23. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
THE GROUP				
Amounts payable under finance leases:				
Within one year	**6,457**	9,819	**6,283**	9,407
In the second to fifth year inclusive	**534**	2,811	**459**	2,749
	6,991	12,630	**6,742**	12,156
Less: Future finance charges	**(249)**	(474)		
Present value of lease obligations	**6,742**	12,156		
Less: Amount due for settlement within one year (shown under current liabilities)			**(6,283)**	(9,407)
Amount due for settlement after one year			**459**	2,749

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 (2004: HK$5,000,000) has been placed with a financial institution as security for the repayment of the remaining instalments.

24. ADVANCES FROM A SUBSTANTIAL SHAREHOLDER/RELATED COMPANY

The amounts of the Group and the Company represent the unsecured loans granted by SMIL which bear interest at Hong Kong prime interest rate per annum. These advances were repaid from the proceeds of HK$50 million convertible note issued by the Company subsequent to the balance sheet date (as explained in note 39 below). At 31 March 2005, SMIL is a substantial shareholder of the Company. At 31 March 2004, SMIL was the holding company of a substantial shareholder of the Company.

25. LONG-TERM LOANS FROM RELATED COMPANIES

The amounts of the Group and the Company represent the loans granted by companies with SMIL as the common substantial shareholder and carry same terms as other loans as set out in note 26.

26. OTHER LOANS

The amounts of the Group and the Company, which were granted by former shareholders and their subsidiaries, 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.

27. SHARE CAPITAL

	No. of shares	Amount HK$'000
Ordinary shares		
Authorised:		
At 1 April 2003 and 31 March 2004, shares of HK$0.05 each	2,000,000,000	100,000
Increase during the year	2,000,000,000	100,000
At 31 March 2005, share of HK$0.05 each	4,000,000,000	200,000
Issued and fully paid:		
At 1 April 2003, shares of HK$0.05 each	468,424,181	23,421
Issue of shares	82,699,800	4,135
At 31 March 2004, shares of HK$0.05 each	551,123,981	27,556
Issue of shares	110,000,000	5,500
Rights issue of shares	330,561,990	16,528
At 31 March 2005, shares of HK$0.05 each	991,685,971	49,584

During the year ended 31 March 2005, the following changes in the share capital took place:

(a) Pursuant to an ordinary resolution passed at an extraordinary general meeting held on 7 December 2004, the authorised share capital of the Company was increased from HK$100,000,000 to HK$200,000,000 by the creation of an additional 2,000,000,000 new ordinary shares of HK$0.05 each.

27. SHARE CAPITAL (Continued)

(b) Pursuant to a subscription agreement entered into on 14 April 2004, an independent investor subscribed for 110,000,000 ordinary shares of HK$0.05 each at a price of HK$0.08 per share, representing a premium of approximately 11.11% to the closing price of HK$0.072 per share as quoted on the Stock Exchange on 14 April 2004. The net proceed of approximately HK$8.4 million were used for general working capital to the Group. These shares were issued under the general mandate granted to the directors of the Company at the extraordinary general meeting held on 29 October 2003.

(c) On 6 September 2004, a total of 330,561,990 ordinary shares of HK$0.05 each were issued by way of rights issue on the basis of one rights share for every two existing shares at a price of HK$0.05 each per rights share. The net proceed of approximately HK$16 million from the rights issue were used for general working capital to the Group.

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

28. RESERVES

	Shareholders' contributions HK$'000	Share premium HK$'000	Merger reserve HK$'000	Exchange reserve HK$'000	Distributable reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
THE GROUP							
At 1 April 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)
Issue of shares	—	3,300	—	—	—	—	3,300
Share issue expenses	—	(1,611)	—	—	—	—	(1,611)
Net loss for the year	—	—	—	—	—	(100,692)	(100,692)
At 31 March 2005	72,894	127,764	121,914	2,304	231,340	(666,832)	(110,616)

	Shareholders' contributions HK$'000	Share premium HK$'000	Distributable reserve HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
THE COMPANY						
At 1 April 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)
Issue of shares	—	3,300	—	—	—	3,300
Share issue expenses	—	(1,611)	—	—	—	(1,611)
Net loss for the year	—	—	—	—	(95,005)	(95,005)
At 31 March 2005	49,087	127,764	231,340	5,589	(528,054)	(114,274)

28. RESERVES (Continued)

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 2005 and 2004.

29. SHARE OPTIONS SCHEME

On 15 January 2002, the Company adopted a share option scheme (the "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 Option Scheme and Chapter 23 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange. The principal purposes of the 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 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 Option Scheme by the Shareholders and such limit might be refreshed by the shareholders of the Company in the general meeting. The Option Scheme commenced on 15 January 2002 and end on the day immediately prior to the tenth anniversary of 15 January 2002.

No consideration was received during the year. Total consideration received during the year ended 31 March 2004 for taking up the options granted amounted to HK$10.

29. 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:

			Number of options								
Date of grant	Exercisable period	Exercise price per share HK$ (Note)	Outstanding as at 1.4.2003	Granted during the year	Exercised during the year	Lapsed upon resignation	Transferred upon resignation (Note i)	Outstanding as at 31.3.2004	Adjusted on 6.9.2004 (Note ii)	Lapsed upon resignation	Outstanding as at 31.3.2005
Directors of the Company											
13.8.2003	13.8.2003–12.8.2013	0.395	—	21,448,000	—	(10,187,800)	(4,289,600)	6,970,600	2,144,800	(2,681,000)	6,434,400
Employees of the Company's subsidiaries											
13.8.2003	13.8.2003–12.8.2013	0.395	—	11,796,400	—	—	4,289,600	16,086,000	5,362,000	(5,362,000)	16,086,000
			—	33,244,400	—	(10,187,800)	—	23,056,600	7,506,800	(8,043,000)	22,520,400

Notes:

(i) On 2 March 2004, a director of the Company resigned and remained an employee of the Group since that date.

(ii) The number and the exercise price of options which remained outstanding on 6 September 2004 have been adjusted due to rights issue on the basis of one rights share for every two shares at HK$0.05 per rights share. The exercise price per share was adjusted from HK$0.593 to HK$0.395.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

30. RELATED PARTY BALANCES AND TRANSACTIONS

I. Related party balances

	2005 HK$'000	2004 HK$'000
Prepaid airtime to Pacific Convergence Corporation, Limited ("PCC") *(Note)*	—	13,802

Note:

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$13,802,000 (2004: HK$9,847,000) under the contract had been fully utilised for the year ended 31 March 2005.

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

30. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

II. Related party transactions

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

	Notes	**2005** **HK$'000**	2004 HK$'000
Administrative service fee	*(a)*	**—**	119
Advertising income	*(b)*	**—**	112
Airticket and hotel expenses	*(c)*	**—**	170
Interest expenses on amount due to a shareholder	*(22)*	**21**	61
Interest expenses on advances from a substantial shareholder/related company	*(24)*	**1,243**	24
Interest expenses on long-term loans from related companies	*(d)*	**370**	369
Interest expenses on other loans	*(e)*	**—**	2,640
Licence fee income	*(f)*	**—**	372

Notes:

(a) Administrative service fee for the year ended 31 March 2004 was paid to Sun Television Cybernetworks Enterprises Ltd. ("Sun Enterprises"), and was charged at pre-agreed price. Sun Enterprise was a wholly-owned subsidiary of Tidetime Sun (Group) Limited, formerly Sun Media Group Holdings Limited ("Tidetime") up to May 2003 and it became a fellow subsidiary of a substantial shareholder of the Company.

(b) Advertising income for the year 31 March 2004 was received from Tidetime, the ultimate holding company of the Company up to 8 December 2003. Advertising income was received from China Strategic Holdings Limited ("CSH"), SMI Corporation Limited (formerly Star East Holdings Limited) ("SMI Corporation"), Ananda Wing On Advertising Co., Ltd. and Tung Fong Hung (Marketing) Limited, affiliates of CSH, Paul Y. ITC Construction Holdings Limited, companies having beneficial interest in the Company prior to 24 January 2003, and Sun Satellite Television Co. Ltd. ("Satellite"), a wholly-owned subsidiary of Tidetime up to May 2003. The amount was charged in accordance with the Group's usual scale charges.

(c) Airticket and hotel expenses were paid to Wing On Travel Ltd., an affiliate of CSH, which were charged at market prices.

(d) Interest expenses for the loans from SMI Corporation and its subsidiary, companies with SMIL as common substantial shareholder, were calculated at Hong Kong prime interest rate per annum in accordance with the loan agreements.

(e) Interest expenses for the loans from 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 and Tidetime was the ultimate holding company. During the year, these parties were no longer related parties to the Group. Interest expenses were calculated at Hong Kong prime interest rate per annum in accordance with the loan agreements.

(f) Licence fee was received from Sun Enterprises which was charged at pre-agreed price.

31. ACQUISITION OF A SUBSIDIARY

	2005 HK$'000	2004 HK$'000
NET ASSETS ACQUIRED:		
Property, plant and equipment	—	12
Investments in securities	—	232
Trade and other receivables	—	485
Bank balances and cash	—	145
Trade and other payables	—	(742)
Minority interests	—	(26)
	—	106
Goodwill arising on acquisition	—	1,764
	—	1,870
SATISFIED BY:		
Cash	—	1,870

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

	2005 HK$'000	2004 HK$'000
Cash consideration	—	(1,870)
Bank balances and cash acquired	—	145
	—	(1,725)

The subsidiaries acquired during the year ended 31 March 2004 contributed HK$179,000 to the Group's revenue, HK$27,000 to the Group's loss before minority interests.

32. DISPOSAL OF SUBSIDIARIES

	2005 HK$'000	2004 HK$'000
NET ASSETS DISPOSED OF:		
Property, plant and equipment	—	2,938
Inventories	—	103
Trade and other receivables	—	4,955
Bank balances and cash	—	13,393
Trade and other payables	—	(1,415)
	—	19,974
Exchange reserve realised	—	92
Loss on disposal of subsidiaries	—	(4,913)
Reclassification to interest in an associate	—	(3,791)
	—	11,362
SATISFIED BY:		
Cash	—	11,362

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

Cash consideration received	—	11,362
Bank balance and cash disposed of	—	(13,393)
	—	(2,031)

The subsidiaries disposed of during the year ended 31 March 2004 contributed HK$2,526,000 to the Group's revenue, HK$4,485,000 to the Group's loss before minority interests, and HK$4,428,000 to the Group's net operating cash flow.

33. MAJOR NON-CASH TRANSACTION

For the year ended 31 March 2005, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the finance leases of HK$871,000 (2004: HK$2,572,000).

34. DEFERRED TAXATION

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

	THE GROUP			
	Accelerated tax depreciation	**Allowance for bad and doubtful debts**	**Tax losses**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 April 2003	10,125	—	(10,125)	—
(Credit) charge 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 1 April 2004	9,194	—	(9,194)	—
(Credit) charge to income for the year	(2,631)	(51)	2,682	—
At 31 March 2005	6,563	(51)	(6,512)	—

At 31 March 2005, the Group has unused tax losses of HK$663,335,000 (2004: HK$583,985,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$37,213,000 (2004: HK$52,536,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$626,122,000 (2004: HK$531,449,000) due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

At 31 March 2005, the Company has unused tax losses of HK$18,509,000 (2004: HK$13,507,000) 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.

35. OPERATING LEASE COMMITMENTS

The Group as lessee

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Minimum lease payments paid under operating leases during the year		
— office premises	**4,326**	4,721
— machinery	**397**	—
— internet leased lines	**81**	101
	4,804	4,822

35. OPERATING LEASE COMMITMENTS (Continued)

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

	THE GROUP					
	Office premises		Machinery		Internet leased lines	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Within one year	**2,884**	4,326	**398**	—	**90**	66
In the second to fifth year inclusive	**—**	3,244	**1,394**	—	**—**	5
	2,884	7,570	**1,792**	—	**90**	71

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

36. CONTINGENT LIABILITIES

At 31 March 2005, 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$192,000 (2004: HK$327,000).

37. RETIREMENT BENEFIT 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$3,311,000 (2004: HK$2,803,000) represents contributions payable to the Scheme in respect of the current accounting period. As at 31 March 2005, contributions of HK$1,473,000 (2004: HK$547,000) due in respect of the reporting period had not been paid over to the Scheme.

38. LITIGATION

During the year, Sing Pao Newspaper Management Limited, a wholly-owned subsidiary of the Company, has been claimed by the landlord of the office premises of the Group (the "Landlord") for approximately HK$2.3 million, being the overdue rental and miscellaneous fees for the tenancy period from September to December 2004. The Group received a Writ of Summons issued by the Registry of the High Court in December 2004 and then paid to the Landlord an aggregate of approximately of HK$2.7 million to settle the claim and rental overdue after the claim to relieve from the vacant possession of the office premises. The Group has started to seek to resolve the remaining overdue rental and miscellaneous fees with the Landlord and has not yet resolved the settlement arrangement on the overdue amount with the Landlord. Subsequent to the balance sheet date, the Landlord has applied to the High Court again to claim for the overdue rental for the tenancy period from March to June 2005 and miscellaneous fees which amounted to approximately HK$3.6 million. A further payment of approximately HK$1.7 million has been settled to the Landlord in June 2005. As the amount under the Landlord's claim has been fully provided in the financial statements, the directors consider the outcome of the claim will not have material financial effect on the Group. However, the future settlement depends upon the availability of fundings to the Group and failure to settle the claim may lead to vacant possession of the office premises by the Landlord and may disrupt the operations of the Group.

In addition, at the balance sheet date, there were outstanding unresolved litigations that were brought against the Group. All these cases were related to defamation. The Group intends to strongly contest the claims and while the final outcome of the proceedings is uncertain, the Directors are of the opinion that the ultimate liability, if any, will not have a material impact upon the Group's financial position.

39. POST BALANCE SHEET EVENT

On 30 April 2005, the Company completed the issue of HK$50 million convertible notes ("Convertible Notes") to SMIL under a subscription agreement dated 3 February 2005. The Convertible Notes bear interest at the rate of 1.5% per annum on the principal amount and is convertible the whole or part of the principal amount into the ordinary shares of the Company at HK$0.05 per share, which represented a premium of approximately 66.67% to the closing price of HK$0.03 per share as quoted on the Stock Exchange on 21 December 2004.

The proceed on the issue of the Convertible Notes has been applied to repay the advances and accrued interests of approximately HK$45 million outstanding at 30 April 2005 made by SMIL to the Group in accordance with the terms of the subscription agreement and net cash provided to the Group is approximately HK$5 million.

FINANCIAL SUMMARY

Results

	Year ended 31 March				
	2001 HK$'000	2002 HK$'000	2003 HK$'000	2004 HK$'000	**2005 HK$'000**
Turnover	48,383	71,493	170,846	116,882	**108,696**
Cost of sales	(89,201)	(106,368)	(201,068)	(149,469)	**(147,437)**
Gross loss	(40,818)	(34,875)	(30,222)	(32,587)	**(38,741)**
Other operating income	5,407	6,346	4,431	3,782	**2,484**
Advertising and promotion expenses	(37,597)	(4,723)	(16,051)	(10,357)	**(18,555)**
Administrative expenses	(81,191)	(63,436)	(81,229)	(53,916)	**(39,371)**
Impairment losses recognised, net	—	(11,752)	(207,194)	(1,764)	**—**
Unrealised (loss) gain on investments in securities	—	(4,500)	(4,167)	250	**(16)**
Cost of streamlining operations	(10,666)	(30,703)	—	—	**—**
Loss from operations	(164,865)	(143,643)	(334,432)	(94,592)	**(94,199)**
(Loss) gain on disposal of subsidiaries	(2,148)	1,317	(282)	(4,913)	**—**
Loss on dilution of interest in an associate	—	—	(309)	—	**—**
Finance costs	(6,868)	(6,135)	(8,480)	(3,882)	**(4,746)**
Share of results of associates	(382)	(545)	(232)	(496)	**(1,755)**
Loss before taxation	(174,263)	(149,006)	(343,735)	(103,883)	**(100,700)**
Taxation	—	—	—	—	**—**
Loss before minority interests	(174,263)	(149,006)	(343,735)	(103,883)	**(100,700)**
Minority interests	—	113	—	18	**8**
Net loss for the year	(174,263)	(148,893)	(343,735)	(103,865)	**(100,692)**

Financial Summary

Assets and Liabilities

	At 31 March				
	2001	2002	2003	2004	**2005**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	198,507	446,819	190,575	122,149	**81,705**
Total liabilities	104,720	190,663	104,424	106,198	**142,737**
Minority interests	—	—	—	8	**—**
	93,787	256,156	86,151	15,943	**(61,032)**

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 the year ended 31 March 2001 have been prepared using the merger method of accounting as if the group structure immediately after the Group Reorganisation had been in existence throughout the period.

NOTICE IS HEREBY GIVEN that the annual general meeting (the "Meeting") of SMI Publishing Group Limited (the "Company") will be held at 7th Floor, Sing Pao Building, 101 King's Road, North Point, Hong Kong on Wednesday, 24 August 2005 at 10:30 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and auditors of the Company for the year ended 31 March 2005 (the "2005 Annual Report").

2. To re-elect retiring directors of the Company and to authorise the board of directors to fix the directors' remuneration.

3. To re-appoint auditors of the Company 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 Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (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

(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 applicable to the Company."

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 or any other stock exchange on which shares of the Company may be listed and recognised by the Securities and Futures Commission (the "SFC") 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 SFC and the articles of association of the Company be and is hereby generally and unconditionally approved;

(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."

By Order of the Board
SMI Publishing Group Limited
LAM Graham
Company Secretary

Hong Kong, 30 July 2005

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 needs 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 48 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/she was 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 and general mandates to issue and repurchase shares under the resolutions numbered 2 and 4B above respectively will be despatched to the shareholders of the Company together with the 2005 Annual Report.