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

Stock Code : 8010

SMI PUBLISHING GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

2006 年報 Annual Report

SingPao 成報

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

QIN Hong *(Chairman)*
HAO Bin *(Chief Executive Officer)*
WANG Fei

Independent Non-Executive Directors

SHI Bin Hai
YAN Chun

QUALIFIED ACCOUNTANT

TANG Yu On

COMPANY SECRETARY

LAI Yau Hong, Thomson

AUTHORISED REPRESENTATIVE

HAO Bin

COMPLIANCE OFFICER

HAO Bin

AUDIT COMMITTEE

SHI Bin Hai
YAN Chun

AUDITORS

CCIF CPA Limited

LEGAL ADVISER

Conyers Dill and Pearman

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

3rd Floor, CWG Building
No. 3 A Kung Ngam Village Road
Hong Kong

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Rooms 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

8010

WEBSITE

www.singpao.com

Chairman's Statement

After several years of economic downturn, the economy is recovered gradually. 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.

Qin Hong
Chairman

Hong Kong, 21 December, 2006

Biographical Information of Directors

EXECUTIVE DIRECTORS

Mr. QIN Hong, aged 35, was appointed as the Chairman and an executive Director of the Company on 13 April 2006. He is also the Chairman of SMI Corporation Limited, a company listed on the main board of the Stock Exchange of Hong Kong Limited, and the Chairman of Stellar Megaunion Corporation, a PRC incorporated company, the A-shares of which are traded on the Shenzhen Stock Exchange. He holds a degree from university and has over 8 years experience in the media and telecommunication industry in the People's Republic of China. He is the younger brother of Mr. Qin Hui who is the 100% beneficial owner of Strategic Media International Limited, a substantial shareholder of the Company.

Mr. HAO Bin, aged 43, was appointed as the executive Director of the Company in October 2004. He is responsible for the overall strategic development of the Group in terms of business development. He graduated in the faculty of News in the Beijing Broadcasting College and has been engaged as the general manager of enterprises in Beijing for which engaged in the media industry. Mr. Hao is also the vice-president of Stellar Megamedia Group Limited. He has been non-executive Director of the Company for the period from 2 March 2004 to 31 May 2004.

Mr. WANG Fei, aged 34, was appointed as an executive Director of the Company on 25 July 2006. He holds a degree from Peking University. He had been working for an internationally renowned foreign owned conglomerate established in Beijing in legal and management aspects.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. SHI Bin Hai, aged 45, was appointed as the independent non-executive Director of the Company in April 2004. He graduated in 1983 with a law degree of Hua Dong Zheng Fa Xue Yuan and has over 20 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 45, was appointed as the independent non-executive director of the Company on 29 September 2004. He graduated form 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.

BUSINESS REVIEW

For the year ended 31 March 2006, the Group's recorded a turnover of approximately HK$84,051,000 representing a decreased of 22.7% as compared with same period last year. The main reasons for the decrease in turnover were two new free newspaper launched to the market and resulting the fierce market competition.

Net loss for the year ended 31 March 2006 was approximately HK$100,972,000 increased by 0.3% as compared with 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 news paper price and increased consumption resulting from the total printing paper cost increased by approximately HK$8,100,000 compared with last year.

In order to strengthen the competitiveness of Sing Pao Daily News ("SPDN"), the advertising and promotion expenses was decreased by 80.5% and the Group has recorded an increase of administration expenses by 5.3%.

The finance cost has increased by 231.5% compared to last year due to increase in shareholder's loan and the issuance of convertible note to mainly finance the operating expenses of SPDN.

FINANCIAL RESOURCES

On 30 April 2005, the Company completed the issue of the HK$50,000,000 convertible notes ("Convertible Notes") to Strategic Media International Limited ("SMIL"), a substantial shareholder of the Company, under subscription agreement dated 3 February 2005. The Convertible Notes is convertible the whole or part of the principal amount into the ordinary shares of the Company at HK$0.05 per share.

The proceed on the issue of the Convertible Notes has been applied to repay the advances and accrued interests of approximately HK$45,000,000 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$5,000,000.

During the year under review, the shareholder's loan from SMIL was increased by HK$6,900,000 which was mainly used for the operating expenses for SPDN.

As at 31 March 2006, the total outstanding shareholder loans due to SMIL was amounted to HK$47,500,000 and the unutilized amount of a facility of HK$48,000,000 granted by SMIL to the Company was amounted to HK$500,000.

As at 31 March 2006, the Group's gearing ratio was 311.7%, compared with 131.6% in 2005. The gearing ratio was calculated by dividing the sum of long-term liabilities by total assets.

Management Discussion & Analysis

As at 31 March 2006, 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$2,000,000 for the tenancy period from January to February 2006. The Group is seeking to resolve it in an amicable way with the landlord and settlement was made in June 2006.

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.

CAPITAL STRUCTURE

There were no changes in the capital structure of the Company during the year (2005: Nil).

DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 March 2006 (2005: Nil).

ANNUAL GENERAL MEETING

The 2006 Annual General Meeting of the Company ("2006 AGM") will be held on 22 January 2007.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the identity of the shareholders entitled to attend and vote at the 2006 AGM, the register of members of the Company will be closed from Thursday, 18 January 2007 to Monday, 22 January 2007, both days inclusive, during which period no transfer of shares will be effected. All transfers accompanied by the relevant certificates must be lodged with the Company's transfer office and share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Wednesday, 17 January 2007.

The Directors have pleasure to present their report and with the audited financial statements of the Company and of the Group for the year ended 31 March 2006.

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 principal activities of the Company's subsidiaries are set out in note 19 to the financial statements.

RESULTS

The results of the Group for the year ended 31 March 2006 is set out in the consolidated income statement on page 24 of the annual report.

No interim dividend has been paid by the Company during the year and the Directors do not recommend the payment of a final dividend for the year ended 31 March 2006.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 35 to the financial statements.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in note 37 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 17 to the financial statements.

SUBSIDIARIES

Particulars of the subsidiaries of the Company are set out in note 19 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the ended 31 March 2006, the five largest customers and the largest customer of the Group accounted for approximately 68% and 64% respectively, of the Group's turnover. The purchases attributable to the Group's three largest suppliers and the largest supplier of the Group were approximately 48% and 24% respectively, 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' Report

DIRECTORS

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

Executive Directors

QIN Hong *(Chairman)*	(appointed as Chairman and executive Director on 13 April 2006)
HAO Bin *(Chief Executive Officer)*	(appointed as Chief Executive Director on 12 May 2006)
WANG Fei	(appointed as executive Director on 25 July 2006)
XING Jing	(resigned on 13 April 2006)
CUI En Qing	(resigned on 29 August 2005)
LIN Ning	(resigned on 24 August 2005)
LI Kai	(resigned on 19 June 2006)

Non-executive Director

KWOK Yat Ming	(resigned on 20 April 2006)

Independent non-executive Directors

SHI Bin Hai	
YAN Chun	
CHAN Ngai Sang, Kenny	(appointed on 7 July 2005 and resigned on 23 March 2006)
LAM Cheung Shing, Richard	(resigned on 28 April 2005)

In accordance with Article 98 of the Articles of Association of the Company ("Articles"), Messrs. QIN Hong and WANG Fei were Directors appointed by the Board after the 2005 annual general meeting of the Company, and therefore shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting ("AGM").

In accordance with Article 115 of the Articles, Mr. SHI Bin Hai shall retire by rotation and, being eligible, offers himself for re-election at the AGM.

The length of the term of appointment of independent non-executive Directors is one year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 March 2006, none of the Directors and chief executive of the Company had any interests and short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors as referred to in Rule 5.46 of the GEM Listing Rules.

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 entitlement of each participant**

   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.

SHARE OPTION SCHEME (Continued)

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 disclosed movement of the Company's share options during the year:

	Date of grant	**Exercisable period**	**Exercise price per share** HK$	**Balance as at 1.4.2005**	**Number of options lapsed upon resignation**	**Balance as at 31.3.2006**
Category 1:						
Directors						
LIN Ning	13.8.2003	13.8.2003-12.8.2013	0.395	6,434,400	(6,434,400)	— —
Category 2:						
Employees	13.8.2003	13.8.2003-12.8.2013	0.395	16,086,000	3,217,200	9,651,600
				22,520,400	9,651,600	9,651,600

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2006, the persons or corporations (not being a Directors of 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	259,779,945 *(Note 1)*	26.20%
Strategic Media International Limited	Beneficial owner	259,779,945 *(Note 1)*	26.20%
LAM Ka Chung William	Held by controlled corporation	71,873,415 *(Note 2)*	7.25%
LAM Wong Yuk Sin Mary	Held by controlled corporation	71,873,415 (Note 2)	7.25%
CHOI Koon Shum Jonathan	Held by controlled corporation	71,873,415 *(Note 2)*	7.25%
KWAN Wing Kum Janice	Held by spouse	71,873,415 *(Note 2)*	7.25%
Kingsway International Holdings Limited	Held by controlled corporation	71,873,415 *(Note 2)*	7.25%
Innovation Assets Limited	Held by controlled corporation	71,873,415 *(Note 2)*	7.25%
World Developments Limited	Held by controlled corporation	71,873,415 *(Note 2)*	7.25%
SW Kingsway Capital Holdings Limited	Held by controlled corporation	71,873,415 *(Note 2)*	7.25%
Kingsway China Holdings Limited	Held by controlled corporation	71,873,415 *(Note 2)*	7.25%

SUBSTANTIAL SHAREHOLDERS (Continued)

Name of shareholders	Capacity	No. of shares of the Company held	Approximate percentage of shareholding
Festival Developments Limited	Held by controlled corporation	71,873,415 *(Note 2)*	7.25%
Kingsway Lion Spur Technology Limited	Beneficial owner	71,873,415 *(Note 2)*	7.25%
JIAO Erli	Beneficial owner	93,000,000 *(Note 3)*	9.38%
SINA Corporation	Beneficial owner	51,769,817 *(Note 3)*	5.22%
PENG Chi Hui	Beneficial owner	50,000,000 *(Note 3)*	5.04%

Notes:

1. Strategic Media International Limited is wholly owned by Mr. QIN Hui.

2. Kingsway Lion Spur Technology Limited ("KLST") is a wholly-owned subsidiary of Festival Developments Limited ("FDL"). FDL is a wholly-owned subsidiary of Kingsway China Holdings Limited ("KCH"). KCH is a wholly-owned subsidiary of SW Kingsway Capital Holdings Limited ("SWK"), the entire issued share capital of which is listed on the Main Board. SWK is a non-wholly owned subsidiary of World Developments Limited ("WDL"). WDL is a wholly-owned subsidiary of Innovation Assets Limited ("IAL"). IAL is a wholly-owned subsidiary of Kingsway International Holdings Limited ("KIH"), which is listed on the Toronto Stock Exchange. By virtue of the SFO, FDL, KCH, SWK, WDL, IAL and KIH are deemed to be interested in all the Shares in which KLST is interested.

   Mr. LAM Ka Chung William and Madam LAM Wong Yuk Sin Mary, the spouse of Mr. Lam, hold more than one-third interest in KIH. By virtue of the SFO, both Mr. and Madam Lam are deemed to be interested in all the Shares in which KIH is interested.

   Mr. CHOI Koon Shum Jonathan holds more than one-third interest in KIH. By virtue of the SFO, Mr. Choi is deemed to be interested in all the Shares in which KIH is interested. Madam KWAN Wing Kum Janice, the spouse of Mr. Choi, is deemed to be interested in all the Shares in which Mr. Choi is interested.

Save as disclosed above, as at 31 March 2006, 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, which directly or indirectly, subsisted at 31 March 2006 or any time 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 LISTING SECURITIES

Neither the Company nor its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 March 2006.

AUDIT COMMITTEE

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.

Following the resignation of Mr. Chan Ngai Sang, Kenny as independent non-executive Director on 23 March 2006, the Company had insufficient members of the Audit Committee. Thus, the Audit Committee has not reviewed the audited financial statements of the Group for the year ended 31 March 2006.

SUFFICIENCY OF PUBLIC FLOAT

The Company maintained a sufficient public float throughout the year ended 31 March 2006.

Directors' Report

AUDITORS

Messrs. Deloitte Touche Tohmatsu resigned as auditors of the Company with effect from 25 November 2005 and CCIF CPA Limited were appointed as auditors of the Company to fill the casual vacancy with effect from 13 December 2005. Save as aforesaid, there have been no other changes of the auditors in the past three years.

A resolution will be submitted to the forthcoming AGM to re-appoint Messrs. CCIF CPA Limited as auditors of the Company.

On behalf of the Board
SMI Publishing Group Limited
Qin Hong
Chairman & Executive Director

Hong Kong, 21 December 2006

The Company is committed to maintaining good corporate governance standard and procedures to ensure the integrity, transparency and quality of disclosure in enhance the shareholder value.

CODE ON CORPORATE GOVERNANCE PRACTICES

During the year ended 31 March 2006, the Company was in compliance with the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 15 to the GEM Listing Rules which came into effect on 1 January 2005, except for the following:

Deviation from the CG Code	Relevant CG Code provisions	Remedial steps to be/has been taken to comply with the CG Code
1. The Company has not formally laid down a procedure agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances to assist the relevant Director(s) to discharge his/their duties to the Company.	A.1.7	The Company will adopt such procedure soon.
2. The roles and responsibilities between the Chairman and chief executive officer have not been divided.	A.2.1	Upon the appointment of chief executive officer on 13 April 2006 and 12 May 2006 respectively, the Company has divided their roles and responsibilities clearly.
3. The independent non-executive Directors are not appointed for a specified term but is subject to the provision for retirement and rotation of Directors under the Articles of Association of the Company (the "Articles").	A.4.1	The independent non-executive Directors were not appointed for a specified terms but they are subject to retirement and thereafter subject to retirement by rotation at least once every three years and in accordance with the Articles.

Deviation from the CG Code	Relevant CG Code provisions	Remedial steps to be/has been taken to comply with the CG Code
4. According to the Articles, at each annual general meeting, one-third of the Directors (other than the Management Directors or Joint Managing Director) for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not exceeding, one-third, shall retire from office by rotation.	A.4.2	A special resolution will be proposed at the annual general meeting of the Company to be held on 22 January 2007 to seek the approval of the shareholders of the Company to amend the Articles so appointed by the Board shall hold office only until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in the case of addition to the existing Board), and shall then be eligible for re-election at that meeting and every Director, including those appointed for a specific term, should by subject to retirement by rotation at least once every three years.
5. The Company has not established written guidelines for relevant employees in respect of dealings in the securities of the Company.	A.5.4	The Company will adopt such guidelines soon.
6. The Company has not formalized the functions reserved to the Board and those delegated to management in written form.	D.1.2	The Company will implement a division of work among the Board and senior management and formally formalized in writing soon.

Save as those mentioned above and in the opinion of the Directors, the Company has met the code provisions set out in the CG Code during the year ended 31 March 2006.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the required standards of dealings regarding securities transactions by Directors as set out in Rules 5.48 to 5.69 of the GEM Listing Rules. All the Directors have confirmed that they have complied with the required standards as set out in the GEM Listing Rules.

BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance. The Board and senior management were delegated with the authority and responsibility by the Board for the day-to-day operations of the Group while reserving certain key matters for the approval of the Board. In addition, the Board has also delegated various responsibilities to the Board Committees. Further details of these committees are set out in this report.

The Board currently consists of five Directors including three executive Directors and two independent non-executive Directors:

Executive Directors

Mr. QIN Hong *(Chairman)*
Mr. HAO Bin *(Chief Executive Officer)*
Mr. WANG Fei

Independent non-executive Directors

Mr. SHI Bin Hai
Mr. YAN Chun

The Board members have no financial, business, family or other material/relevant relationships with each other. Such balanced board composition is formed to ensure strong independence exists across the Board and has met the recommended practice under the CG Code for the Board to have at least one-third of its members comprising independent non-executive Directors. The biographical information of the Directors are set out on page 4 of the annual report under the section headed "Biographical Information of Directors".

Chairman and Chief Executive Officer

The two positions are held separately by two individuals to ensure their respective independence, accountability and responsibility. The Chairman, being Mr. Qin Hong, is in-charge of the leadership of the Board and strategies planning of the Group. The Chief Executive Officer, being Mr. Hao Bin, is responsible for the day-to-day management of the Group's business.

Independent non-executive Directors

The two independent non-executive Directors are persons of high caliber. With their experience gained from various sectors, they provide strong support towards the effective discharge of the duties and responsibilities of the Board. Each independent non-executive Director gives an annual confirmation of his independence to the Company, and the Company considers them to be independent under Rule 5.09 of the GEM Listing Rules.

The independent non-executive Directors are not appointed for a specific term but are subject to retirement at the first general meeting after their appointment and thereafter subject to retirement by rotation at least once every three years and in accordance with the Articles.

Board Meetings

During the financial year ended 30 March 2006, the Board held 18 meetings.

Name of Director	Number of attendance
Mr. Hao Bin	3/18
Mr. Xing Jing#	15/18
Mr. Cui En Qing**	3/13
Mr. Li Kai##	5/18
Mr. Lin Ning***	1/13
Mr. Kwok Yat Ming###	16/18
Mr. Shi Bin Hai	1/18
Mr. Yan Chun	6/18
Mr. Chan Ngai Sang, Kenny****	2/18

* Mr. Qin Hong and Mr. Wang Fei were appointed on 13 April 2006 and 25 July 2006 respectively.

** Mr. Cui En Qing resigned on 29 August 2005. Thirteen board meetings of the Company were held before his resignation.

*** Mr. Lin Ning retired on 24 August 2005. Thirteen board meetings of the Company were held before his retirement.

**** Mr. Chan Ngai Sang, Kenny resigned on 23 March 2006. Eighteen board meetings of the Company were held before his resignation.

Mr. Xing Jing resigned on 13 April 2006.

Mr. Li Kai resigned on 19 June 2006.

Mr. Kwok Yat Ming resigned on 20 April 2006.

The Company planned in advance four scheduled Board meetings a year at approximately quarterly intervals in order to make sure all Directors could plan in advance their availability to attend the scheduled Board meetings. Additional meetings will be held as and when required.

Board minutes are kept by the Company Secretary and are open for inspection by the Directors. Every Board member is entitled to have access to Board papers and related materials and has unrestricted access to the advice and services of the Company Secretary, and has the liberty to seek external professional advice if so required.

Appropriate insurance cover has been arranged in respect of relevant actions against its Directors.

AUDIT COMMITTEE

The Company has an audit committee ("Audit Committee") with written terms of reference. The Audit Committee comprises two independent non-executive Directors, namely Mr. Shi Bin Hai (as Chairman) and Mr. Yan Chun.

The Audit Committee is mainly responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditors and to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of such auditors; reviewing the quarterly, interim and annual reports and accounts of the Group; and overseeing the Company's financial reporting system and internal control procedures.

Following the resignation of Mr. Chan Ngai Sang, Kenny as independent non-executive Director on 23 March 2006, the Company had insufficient members of the Audit Committee. Thus, the Audit Committee has not reviewed the audited financial statements of the Group for the year ended 31 March 2006.

Terms of reference adopted by the Audit Committee are aligned with the code provisions set out in the CG Code.

During the financial year ended 31 March 2006, the Audit Committee held three meetings.

Name of member	**Number of attendance**
Mr. Shi Bin Hai	0/3
Mr. Yan Chun	3/3
Mr. Chan Ngai Sang, Kenny*	2/3

* Mr. Chan Ngai Sang, Kenny resigned on 23 March 2006. Three audit committee meetings of the Company were held before his resignation.

NOMINATION OF DIRECTORS

In considering the nomination of new Directors, the Board will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates, especially their experience in the media industry and/or other professional area.

Furthermore, as the full Board is responsible for the selection and approval of candidate for appointment as Director to the Board, therefore the Company has not established a Nomination Committee for the time being.

REMUNERATION OF DIRECTORS

The Company established the remuneration committee ("Remuneration Committee") on 27 July 2005.

The Remuneration Committee is mainly responsible for making recommendations to the Board on the remuneration system of the Company.

Following the resignation of Mr. Xing Jing and Mr. Chan Ngai Sang, Kenny on 13 April 2006 and 23 March 2006 respectively, there are insufficient members of the Remuneration Committee and hence, no Remuneration Committee meeting was held during the year under review.

The Company has adopted a share option scheme on 15 January 2002. The purpose of the share option scheme is to enable the Board, at its discretion, to grant options to any eligible participants which include Directors as incentives or rewards for their contribution to the Group. Details of the share option scheme are set out in the Directors' Report and note 36 to the financial statements. Details of the Directors' remuneration are set out in note 12 to the financial statements.

AUDITORS' REMUNERATION

During the year under review, the remuneration in respect of audit and non-audit services provided by the Company's auditors, is set out below:

Services rendered	**Fee paid/payable**
	HK$'000
Audit services	430

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Board acknowledges its responsibility to prepare the Company's financial statements for each financial period and to ensure that the financial statements are in accordance with statutory requirements and applicable accounting standards. The Board also ensures the timely publication of the financial statements. The Directors, having made appropriate enquiries, confirm that they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

CCIF
CCIF CPA LIMITED
20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay, Hong Kong

AUDITORS' REPORT TO THE SHAREHOLDERS OF SMI PUBLISHING GROUP LIMITED
(Incorporated in the Cayman Islands with Limited Liability)

We have audited the consolidated financial statements of SMI Publishing Group Limited (the company) and its subsidiaries (the group) from pages 24 to 88 which have been prepared in accordance with accounting principles generally accepted in Hong Kong, other than as set out below.

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 financial 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 Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants, except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the company's and the group's circumstances, consistently applied and adequately disclosed.

We planned 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 consolidated financial statements are free from material misstatement. However, the evidence available to us was limited as below:

BASIS OF OPINION (Continued)

Interest in an unconsolidated subsidiary — 北京中錄音像有限公司(北京中錄音像)

As explained in note 19(b) to the consolidated financial statements, the group holds the equity interest through a Deed of Undertaking, a trust deed signed between the group and an individual (the trustee) on 7 August 2003. As the group lost contact with the trustee and therefore has been unable to execute the shareholder rights through the trustee, in addition the registered and paid up capital of the subsidiary was diluted, the group has been unable to exercise control over the financial and operating decisions of 北京中錄音像 , nor to get access to their books and records together with supporting documents. Accordingly, 北京中錄音像 was deconsolidated from the consolidated financial statements with effect from 1 September 2005 and was accounted for as available-for-sale investment and stated in the consolidated balance sheet with nil carrying value. The consolidated income statement included a loss on deconsolidation of 北京中錄音像 of approximately HK$9,000 and impairment loss for amount due from 北京中錄音像 of HK$187,000. There was no sufficient information for us to determine the validity of the Deed of Undertaking as described in note 19(b) and the appropriateness of these deconsolidation and provision of impairment loss. We were unable to verify the validity of ownership of interest in 北京中錄音像. As a result, we are unable to satisfy ourselves that the ownership of interest in 北京中錄音像 and the loss on deconsolidation had been fairly stated and properly accounted for and the information properly disclosed in the consolidated financial statements.

Any adjustments found to be necessary would affect the net liabilities of the group as at 31 March 2006 and the loss of the group for the year then ended.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated 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 1(a)(i) to the consolidated financial statements concerning the adoption of the going concern basis on which the consolidated financial statements have been prepared. As at 31 March 2006, the group had net liabilities of approximately HK$146 million. The financial statements have been prepared on a going concern basis, the validity of which depends on the continuing financial support from its substantial shareholder, the outcome of licenses granted and generation of royalty income as described in note 1(a)(i). The consolidated financial statements do not include any adjustments that would be necessary if this basis was no longer appropriate. We consider that appropriate disclosures have been made. However, in view of the extent of the fundamental uncertainty relating to the continuing financial support from the substantial shareholder, we disclaim our opinion in respect of the fundamental uncertainty relating to the going concern basis.

DISCLAIMER OF OPINION

Disagreement about accounting treatment

As explained in note 19(c) to the consolidated financial statements, 東方魅力資訊科技股份有限公司 (東方魅力資訊) was in the process of liquidation. The directors of the company considered they had lost control over 東方魅力資訊. The financial statements of 東方魅力資訊 was consolidated. The accounting treatment was not in accordance with the requirements of Hong Kong Accounting Standard 27, Consolidation and Separated Financial Statements (HKAS 27) issued by Hong Kong Institute of Certified Public Accountants, which requires a subsidiary should be deconsolidated when the group had lost control over it. In our opinion 東方魅力資訊 should not be consolidated as at 31 March 2006. There were no audited financial statements nor managements accounts for the year ended 31 March 2006 available for our inspection. It is not practicable to quantify the effects of deconsolidation on the financial position of the group as at 31 March 2006 and on the group's loss for the year then ended and any contingent liabilities which may arise from the liquidation.

Because of the significance of the possible effects of the scope limitations in evidence available to us as set out in the Basis of Opinion section of this report, non-compliance with the requirements of HKAS 27 referred to the preceding paragraph and fundamental uncertainty relating to the going concern basis, we are unable to form an opinion as to whether the consolidated financial statements give a true and fair view of the state of affairs of the company and the group as at 31 March 2006 and of the loss and cash flows of the group for the year then ended or as to whether the consolidated financial statements have been properly prepared in accordance with the disclosures requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 21 December 2006

Chan Wai Dune, Charles
Practising Certificate Number P00712

Consolidated Income Statement

For the year ended 31 March 2006

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
Turnover	8	**84,051**	108,696
Cost Of Sales		**(129,331)**	(147,437)
Gross Loss		**(45,280)**	(38,741)
Other Revenue	8	**3,685**	2,484
Distribution Costs		**(2,691)**	(18,555)
Administrative Expenses		**(41,472)**	(39,369)
Unrealised Loss on Investments In Securities		**—**	(16)
Loss From Operations		**(85,758)**	(94,197)
Finance Costs	10	**(15,733)**	(4,746)
Share Of Profit Less Loss Of An Associate		**(866)**	(1,755)
Loss Before Taxation	11	**(102,357)**	(100,698)
Income Tax	13	**1,385**	—
Loss For The Year		**(100,972)**	(100,698)
Attributable To			
— Equity shareholders of the company		**(100,972)**	(100,690)
— Minority interest		**—**	(8)
		(100,972)	(100,698)
Dividend	15	**—**	—
Loss Per Share	16	**0.10**	0.12

The notes on pages 29 to 88 form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 March 2006

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
Non-current Assets			
Property, plant and equipment	17	**36,157**	55,664
Lease premium for land	18	**123**	126
Interest in an associate	21	**717**	1,540
Available-for-sale investments	22	**1,433**	—
Investments in securities-other investments	23	**—**	1,799
		38,430	59,129
Current Assets			
Inventories	24	**1,593**	1,043
Trade and other receivables	25	**8,960**	14,518
Pledged deposits		**—**	5,000
Cash and cash equivalents	26	**910**	2,025
		11,463	22,586
Current Liabilities			
Trade and other payables	28	**39,576**	28,858
Current portion of obligations under finance leases	29	**443**	6,283
		(40,019)	(35,141)
Net Current Liabilities		**(28,556)**	(12,555)
Total Assets Less Current Liabilities		**9,874**	46,574
Non-current Liabilities			
Advances from a substantial shareholder	31	**47,506**	40,569
Obligation under finance leases	29	**38**	459
Long-term loans from related companies	32	**6,353**	8,155
Other loans	33	**61,988**	58,413
Convertible note	34	**37,541**	—
Deferred tax	39	**2,100**	—
		(155,526)	(107,596)
NET LIABILITIES		**(145,652)**	(61,022)
CAPITAL AND RESERVES			
Share capital	35	**49,584**	49,584
Reserves		**(195,236)**	(110,606)
Equity attributable to			
Equity shareholders of the company		**(145,652)**	(61,022)
Minority interests		**—**	—
CAPITAL DEFICIENCY		**(145,652)**	(61,022)

Approved and authorised for issue by the board of directors on 21 December 2006
On behalf of the board

Director

Director

The notes on pages 29 to 88 form an integral part of these financial statements.

Balance Sheet

As at 31 March 2006

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
Non-current Assets			
Interest in subsidiaries	*19*	**—**	—
Amounts due from subsidiaries	*20*	**510**	8,220
		510	8,220
Current Assets			
Other receivables and prepayments		**33**	408
Bank balances and cash		**20**	29
		53	437
Current Liabilities			
Other payables and accrued charges		**(1,997)**	(1,888)
Net Current Liabilities		**(1,944)**	(1,451)
Total Assets Less Current Liabilities		**(1,434)**	6,769
Non-current Liabilities			
Advances from a substantial shareholder	*31*	**47,506**	40,569
Long-term loans from related companies	*32*	**5,161**	4,863
Other loans	*33*	**27,620**	26,027
Convertible note	*34*	**37,541**	—
Deferred tax	*39*	**2,100**	—
		(119,928)	(71,459)
NET LIABILITIES		**(121,362)**	(64,690)
CAPITAL AND RESERVES			
Share capital	*35*	**49,584**	49,584
Reserves	*37*	**(170,946)**	(114,274)
CAPITAL DEFICIENCY		**(121,362)**	(64,690)

Approved and authorised for issue by the board of directors on 21 December 2006
On behalf of the board

Director

Director

The notes on pages 29 to 88 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2006

	Attributable to equity shareholders of the company											
	Share capital HK$'000	Convertible note equity reserve HK$'000	Share premium HK$'000	Shareholders' contribution HK$'000	Merger reserve HK$'000	Currency translation reserve HK$'000	Distributable reserve HK$'000	Fair value reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Minority interest HK$'000	Total HK$'000
Balance at 1 April 2004, as previously reported	27,556	–	126,075	72,894	121,914	2,304	231,340	–	(566,140)	15,943	8	15,951
Prior period adjustment: – HKAS 17	–	–	–	–	–	–	–	–	8	8	–	8
Balance at 1 April 2004, as restated	27,556	–	126,075	72,894	121,914	2,304	231,340	–	(566,132)	15,951	8	15,959
Issue of shares	5,500	–	3,300	–	–	–	–	–	–	8,800	–	8,800
Share issue expenses	–	–	(1,611)	–	–	–	–	–	–	(1,611)	–	(1,611)
Rights issue of shares	16,528	–	–	–	–	–	–	–	–	16,528	–	16,528
Loss for the year	–	–	–	–	–	–	–	–	(100,690)	(100,690)	(8)	(100,698)
Balance at 31 March 2005, as restated	49,584	–	127,764	72,894	121,914	2,304	231,340	–	(666,822)	(61,022)	–	(61,022)
Balance at 1 April 2005, as previously report	49,584	–	127,764	72,894	121,914	2,304	231,340	–	(666,832)	(61,032)	–	(61,032)
Prior period adjustment: – HKAS 17	–	–	–	–	–	–	–	–	10	10	–	10
Balance at 1 April 2005, as restated	49,584	–	127,764	72,894	121,914	2,304	231,340	–	(666,822)	(61,022)	–	(61,022)
Exchange on translation of financial statements of an associate	–	–	–	–	–	43	–	–	–	43	–	43
Loss on fair value change on available-for-sale investments	–	–	–	–	–	–	–	(133)	–	(133)	–	(133)
Recognition of equity component of convertible note (Note 34)	–	19,917	–	–	–	–	–	–	–	19,917	–	19,917
Deferred tax liability on recognition of equity component of convertible note (Note 39)	–	(3,485)	–	–	–	–	–	–	–	(3,485)	–	(3,485)
Loss for the year	–	–	–	–	–	–	–	–	(100,972)	(100,972)	–	(100,972)
Balance at 31 March 2006	49,584	16,432	127,764	72,894	121,914	2,347	231,340	(133)	(767,794)	(145,652)	–	(145,652)

The notes on pages 29 to 88 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 March 2006

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
NET CASH USED IN OPERATING ACTIVITIES	*38(a)*	**(54,145)**	(44,189)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(158)**	(822)
Proceeds from disposal of property, plant and equipment		**4**	424
Decrease in pledged deposit placed with a finance company		**5,000**	—
Net cash outflow from deconsolidation of a subsidiary	*38(b)*	**(19)**	—
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES		**4,827**	(398)
		(49,318)	(44,587)
FINANCING ACTIVITIES			
Increase in advances from a substantial shareholder		**49,922**	27,200
Net proceeds from issue of shares		**—**	23,717
Obligations under finance lease payments		**(6,261)**	(6,285)
Proceeds from issue of convertible note		**5,000**	—
Transaction cost on issue of convertible note		**(458)**	—
Repayment of advances from a substantial shareholder/related company		**—**	(500)
NET CASH GENERATED FROM FINANCING ACTIVITIES		**48,203**	44,132
DECREASE IN CASH AND CASH EQUIVALENTS		**(1,115)**	(455)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**2,025**	2,480
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**910**	2,025
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS	*26*	**910**	2,025

The notes on pages 29 to 88 form an integral part of these financial statements.

1. GENERAL INFORMATION

The company is a limited company incorporated in the Cayman Islands and its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the company are disclosed in the section of "Corporate Information" to the annual report.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the company.

The company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 19.

(a) BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(i) Going concern

As at 31 March 2006, the company and its subsidiaries (together referred to as the "group") had net liabilities of approximately HK$145,652,000. The financial statements have been prepared on the assumption that the group will continue to operate as a going concern. In the opinion of the directors, the liquidity of the group can be maintained in the coming year taking into consideration of continuing financial support from its substantial shareholder and the proposed financing arrangements which include, but not limited to the following two subsequent events:

1) the Bureau of Publicity of the State-owned Assets Supervision and Administration Commission of the State Council has granted the group three licenses for distribution of newspaper in the territories of routes of airlines; and

2) the group has signed two royalty agreements with two companies in the People's Republic of China. According to the royalty agreements, the group will receive a total of HK$24,000,000 for the period from 21 November 2006 to 20 November 2008 in consideration of copyright.

Should the group be unable to generate positive cash flows, the group might not be able to continue in business as a going concern. Accordingly, adjustments would have to be made in the financial statements to restate the values of the assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively.

1. GENERAL INFORMATION (Continued)

(a) BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

(ii) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the group is set out below.

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these financial statements is provided in note 3.

(iii) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 March 2006 comprise the group and the group's interest in associate.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that financial instruments classified as available-for-sale investments are stated at their fair values as explained in the accounting policies note 5(i).

2. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATION FOR RECENTLY ISSUED FINANCIAL REPORTING STANDARDS

ADOPTION OF NEW HKFRSs AND HKASs

The HKICPA has issued a number of new or revised HKFRSs, which also include all HKASs and Interpretations, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods commencing on or after 1 April 2005.

The Group has adopted the following HKASs and HKFRSs issued in the financial statements for the year ended 31 March 2006.

HKAS 1	Presentation of financial statements
HKAS 2	Inventories
HKAS 7	Cash flow statements
HKAS 8	Accounting policies, changes in accounting estimates and errors

2. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATION FOR RECENTLY ISSUED FINANCIAL REPORTING STANDARDS (Continued)

ADOPTION OF NEW HKFRSs AND HKASs (Continued)

HKAS 10	Events after the balance sheet date
HKAS 12	Incomes taxes
HKAS 14	Segment reporting
HKAS 16	Property, plant and equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee benefits
HKAS 21	The effects of changes in foreign exchange rates
HKAS 23	Borrowing costs
HKAS 24	Related party disclosures
HKAS 27	Consolidated and separate financial statements
HKAS 28	Investments in associates
HKAS 32	Financial instruments: Disclosure and presentation
HKAS 33	Earnings per share
HKAS 36	Impairment of assets
HKAS 37	Provision, contingent liabilities and contingent assets
HKAS 38	Intangible assets
HKAS 39	Financial instruments: Recognition and measurement
HKFRS 2	Share-based payment
HKFRS 3	Business Combination

The adoption of these new/revised HKASs 1, 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 21, 23, 24, 27, 28, 32, 33, 36, 37, 38, 39, HKFRSs 3 did not result in substantial changes to the accounting policies of the group and the methods of computation in the group's consolidated financial statements. In summary:

— HKAS 1 affects certain presentation in the balance sheet, the income statement and statement of changes in equity.

— HKASs 14, 16, 17, 23, 24, 28, 32 and 39 affect certain presentations and disclosures of the consolidated financial statements.

— HKASs 2, 7, 8, 10, 12, 18, 19, 21, 27, 33, 36, 37, 38, HKFRSs 3 do not have any significant impact as the company's accounting policies have already complied with these standards.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES

The following is a summary of material changes in principal accounting policies or presentation of the financial statements as a result of the adoption of the new HKFRSs and HKASs:

(a) Amortisation of positive and negative goodwill (HKFRS 3, Business combinations and HKAS 36, Impairment of assets)

In prior periods:

— positive or negative goodwill which arose prior to 1 January 2001 was taken directly to reserves at the time it arose, and was not recognised in the income statement until disposal or impairment of the acquired business;

— positive goodwill which arose on or after 1 January 2001 was amortised on a straight line basis over its useful life and was subject to impairment testing when there were indications of impairment; and

— negative goodwill which arose on or after 1 January 2001 was amortised over the weighted average useful life of the depreciable/amortisable non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognised in the income statement as those expected losses were incurred.

With effect from 1 April 2005, in order to comply with HKFRS 3 and HKAS 36, the group has changed its accounting policies relating to goodwill. Under the new policy, the group no longer amortises positive goodwill but tests it at least annually for impairment. Also with effect from 1 April 2005 and in accordance with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in profit or loss as it arises. Further details of these new policies are set out in note 5(e).

(b) Share-based payments

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from accounting period commencing from 1 April 2005, in order to comply with HKFRS 2, the group has adopted a new policy for share options. Under the new policy, the group recognises the fair value of such share options as an expense with a corresponding increase recognised in a capital reserve within equity.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES (Continued)

(b) Share-based payments (Continued)

The group has taken advantage of the transitional provisions set out in HKFRS 2, under which the new recognition and measurement policies have not been applied to the following grants of options:

(i) all options granted to employees on or before 7 November 2002; and

(ii) all options granted to employees after 7 November 2002 but which had vested before 1 April 2005.

No adjustments to the opening balances as at 1 April 2004 are required as no options existed at that time which were unvested at 1 April 2005.

Details of the equity-settled share-based transactions are set out in note 36.

(c) Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement)

With effect from 1 April 2005, in order to comply with HKAS 32 and HKAS 39, the group has changed its accounting policies relating to financial instruments to those as set out in note 5(i).

In prior years, equity investments held on a continuing basis for an identifiable long-term purpose were classified as investment securities and stated at cost less provision. Other investments in securities (including those held for trading and for non-trading purposes) were stated at fair value with changes in fair value recognised in profit or loss.

With effect from 1 April 2005, and in accordance with HKAS 39, all investments, with the exception of securities held for trading purposes, dated debt securities being held to maturity and certain unquoted equity investments, are classified as available-for-sale investments and carried at fair value. Changes in the fair value of available-for-sale investments are recognised in equity, unless there is objective evidence that an individual investment has been impaired. Further details of the new policies are set out in note 5(i).

(d) Leasehold land and buildings (HKAS 17, Leases)

Leasehold land and buildings held for own use.

Before 1 April 2005, an interest in land held under operating lease was included in property, plant and equipment and stated at cost less accumulated depreciation and impairment losses, if any.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES (Continued)

(d) Leasehold land and buildings (HKAS 17, Leases) (Continued)

From 1 April 2005, the group has retrospectively reclassified the interest in land as lease premium for land under other non-current assets pursuant to HKAS 17. The carrying amount of property, plant and equipment reclassified to lease premium for land under other non-current assets amounts to approximately HK$126,000 at 1 April 2005 (1 April 2004: approximately HK$129,000).

Further details of the new policy are set out in notes 5(d) and 5(o).

(e) Definition of related parties (HKAS 24, Related party disclosures)

As a result of the adoption of HKAS 24, Related party disclosures, the definition of related parties as disclosed in note 5(s) has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the group or of any entity that is a related party of the group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current period, as compared to those that would have been reported had SSAP 20, Related party disclosures, still been in effect.

(f) HKAS 21 The effects of change in foreign exchange rates

In prior years, goodwill arising on the acquisition of a foreign operation was translated at the exchange rates ruling at the transaction dates.

With effect from accounting period commencing from 1 April 2005, in order to comply with HKAS 21, the group has changed its accounting policy relating to retranslation of goodwill. Under the new policy, any goodwill arising on the acquisition of a foreign operation is treated as an asset of the foreign operation and is retranslated at exchange rates ruling at the balance sheet date, together with the retranslation of the net assets of the foreign operation. Further details of the new policy is set out in note 5(n).

In accordance with the transitional provisions in HKAS 21, this new policy has not been adopted retrospectively and is only applied to acquisitions occurring on or after 1 April 2005. As the group has not acquired any new foreign operations since that date, the change in policy has had no impact on the financial statements for the year ended 31 March 2006.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES (Continued)

(g) HKAS 1 Presentation of financial statements

Minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements).

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the group for the year were also separately presented in the income statement as a deduction before arriving at the loss attributable to shareholders (the equity shareholders of the company).

With effect from accounting period commencing from 1 April 2005, in order to comply with HKAS 1 and HKAS 27, the group has changed its accounting policy relating to presentation of minority interests. Under the new policy, minority interests are presented as part of equity, separately from interests attributable to the equity shareholders of the company. These changes in presentation have been applied retrospectively with comparatives restated.

The group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, to these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 December 2005:

HKAS 1 (Amendment)	Capital Disclosures
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendments)	Financial Instruments: Recognition and Measurement and Insurance Contracts - Financial Guarantee Contracts
HKFRSs 1 & 6 (Amendments)	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement Contains a Lease
HK(IFRIC)-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities Arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES (Continued)

HKAS 1 (Amendment) shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the company's objective, policies and processes for managing capital; quantitative data about what the company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 incorporates the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

The HKAS 39 (Amendment) regarding the fair value option restricts the designation of any financial asset or financial liability as measured at fair value through profit and loss, unless certain conditions can be met.

The HKAS 19 (Amendment), HKAS 39 (Amendments) regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1, 4 and 6 (Amendments), HKFRS 6, HK(IFRIC)-Int 4, 5, 6 and 7 do not apply to the activities of the group. HK(IFRIC)-Int 7 is effective for annual periods beginning on or after 1 January 2006.

Except as stated above, the group expects that the adoption of other pronouncement listed above will not have any significant impact on the group's financial statements in the period of initial application.

4. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described in note 3 on the results is as follows:

The group has taken advantage of the transitional provisions set out in HKFRS 2 as explained in Note 3(b), under which the new recognition and measurement policies have not been applied to the following grants of options.

As the group's options were granted to employees after 7 November 2002 but which had vested before 1 January 2005, the adoption of HKFRS 2 has no impact on the group's net assets and results for the current and prior years.

4. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (Continued)

Restatement of prior periods and opening balances (Continued)

The following tables disclose the adjustments that have been made in accordance with the transitional provisions of the respective HKFRSs to each of the line items in the consolidated income statement and balance sheet and other significant related disclosure items as previously reported for the year ended 31 March 2005.

(i) Effect on the consolidated income statement for the year ended 31 March 2005:

	2005 (as previously reported) HK$'000	**Effect of new policy (increase)/ decrease in loss for the year HKAS 17** HK$'000	**2005 (as restated)** HK$'000
Administrative expenses	(39,371)	2	(39,369)
Loss for the year	(100,700)	2	(100,698)
Attributable to:			
Equity shareholders of the company	(100,692)	2	(100,690)
Loss for the year	(100,700)	2	(100,698)
Loss per share			
Basis	0.12	—	0.12
Diluted	—	—	—
Other significant disclosure items:			
Depreciation	(19,730)	5	(19,725)
Amortisation of lease premium for land	—	(3)	(3)

4. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (Continued)

Restatement of prior periods and opening balances (Continued)

(ii) Effect on the consolidated balance sheet at 31 March 2005:

	2005 (as previously reported) HK$'000	**Effect of new policy (increase/ (decrease) in net assets) HKAS 17** HK$'000	**2005 (as restated)** HK$'000
Property, plant and equipment	55,780	(116)	55,664
Lease premium for land	—	126	126
Accumulated losses	(666,832)	10	(666,822)
Reserves	(110,616)	10	(110,606)

(iii) Effect on the consolidated balance sheet at 1 April 2005:

	2005 (as previously reported) HK$'000	**HKAS 39** HK$'000	**2005 (as restated)** HK$'000
Investment in securities	1,799	(1,799)	—
Available-for-sale investments	—	1,799	1,799

4. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (Continued)

Estimated effect of changes in accounting policies on the current period

The following tables provide estimates of the extent to which each of the line items in the consolidated income statement and balance sheet and other significant related disclosure items for the year ended 31 March 2006 is higher or lower than it would have been had the previous policies still been applied in the year, where it is practicable to make such estimates.

(i) *Estimated effect on the consolidated income statement for the year ended 31 March 2006:*

	Estimated effect of new policy ((increase)/decrease in loss for the year) HKAS 17	**Total**
	HK$'000	HK$'000
Administrative expenses	2	2
Loss for the year	2	2
Attributable to:		
Equity shareholders of the company	2	2
Loss for the year	2	2
Loss per share		
Basis	—	0.10
Diluted	—	—
Other significant disclosure items:		
Depreciation	5	5
Amortisation of lease premium for land	(3)	(3)

4. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (Continued)

Estimated effect of changes in accounting policies on the current period (Continued)

(ii) Estimated effect on the consolidated balance sheet at 31 March 2006:

	Estimated effect of new policy (increase/(decrease) in net assets) HKAS 17, HKAS 39 HK$'000	Total HK$'000
Property, plant and equipment	(111)	(111)
Lease premium for land	123	123
Investment in securities	(1,433)	(1,433)
Available-for-sale investments	1,433	1,433
Accumulated losses	12	12
Reserves	12	12

5. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

The financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the financial statements include applicable disclosures required by the Rules Government the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

(a) Basis of preparation

The consolidated financial statements incorporate the financial statements of the company and its subsidiaries and associate.

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.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

Before qualifying as a business combination, a transaction may qualify as an investment in an associate or a jointly controlled entity and be accounted for using the equity method. If so, the fair values of the investee's identifiable net assets at the date of each earlier exchange transaction will have been determined previously in applying the equity method to the investment.

To the extent that the fair value of the investee's net assets at the date of achieving significant influence/joint control differs from the fair value at the date of achieving control, a revaluation will be required to ensure that the net assets are recorded at their fair value at the date of acquisition.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

(b) Subsidiaries and controlled entities

In accordance with Hong Kong Companies Ordinance, a subsidiary is a company in which the group, directly or indirectly, holds more than half of the issued share capital or controls more than half the voting power or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the company. Minority interests in the results of the group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the company.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Subsidiaries and controlled entities (Continued)

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the group's interest is allocated all such profits until the minority's share of losses previously absorbed by the group has been recovered.

In the company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses, unless the investment is classified as held for sale.

(c) Associates

An associate is an entity in which the group or company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the group's share of the associate's net assets, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated income statement includes the group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on goodwill relating to the investment in associate recognized for the year.

When the group's share of losses exceeds its interest in the associate, the group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the associate.

For this purpose, the group's interest in the associate is the carrying amount of the investment under the equity method together with the group's long-term interests that in substance form part of the group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the group and its associate are eliminated to the extent of the group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the company's balance sheet, its investment in an associate is stated at cost less impairment losses, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale).

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Property, plant and equipment

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

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, on a straight-line basis over their estimated useful lives as follows:

Buildings	4%
Motor vehicles	15%
Network and computer equipment	15%
Furniture, fixture and equipment	15%
Leasehold improvement	4%
Machinery	15%

The residual value and the useful life of an asset are reviewed at each financial year-end.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(e) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate over the group's interest in the net fair value of the acquiree' identifiable assets, liabilities and contingent liabilities. Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 5(h)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in the associate.

Any excess of the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in profit or loss.

On disposal of a cash generating unit, an associate during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Intangible assets

Intangible assets other than goodwill that are acquired by the group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is other than indefinite) and impairment losses (see note 5(h)). Intangible assets with indefinite useful lives that are acquired by the group are stated in the balance sheet at cost less impairment losses (see note 5(h)).

Both the period and method of amortisation and any conclusion that the useful life of an intangible asset is indefinite are reviewed annually.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. Cost is determined on a first-in, first-out basis.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(h) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;
— pre-paid interests in leasehold land classified as being held under an operating lease;
— Intangible assets;
— investment in associate (except for those classified as held for sale or included in a disposal group that is classified as held for sale);
— available-for-sale investment (except for those have a quoted market price); and
— goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Impairment of assets (Continued)

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset.

Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generated cash inflows independently (i.e. a cash-generating unit).

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable. In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

(i) Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The group's financial assets are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place. The accounting policies adopted in respect of each category of financial assets are set out below.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial instruments (Continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held-for-trading and are initially stated at fair value. At each balance sheet date subsequent to initial recognition, the fair value if remeasure, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, loan receivables and bank deposits) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories and are initially recognised at fair value. At each balance sheet date subsequent to initial recognition, the fair value are remeasured. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse through profit or loss in subsequent periods.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial instruments (Continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of the group's other financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including bank and other borrowings and trade and other payables are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the group's balance sheet when, and only when, it is extinguished (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

(j) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Income tax (Continued)

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Income tax (Continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the company has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the company intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

— the same taxable entity; or

— different taxation entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

(k) 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.

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.

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

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

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Revenue recognition (Continued)

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

(l) 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.

(m) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost to the group of non-monetary benefits are accrued in the year in which the associated services are rendered by employee of the group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Scheme Ordinance, are recognised as an expense in the income statement as incurred, except to the extent that they are included in the cost of intangible assets and inventories not yet recognised as an expense.

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Employee benefits (Continued)

Termination benefits are recognised when, and only when, the group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(n) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised directly in equity.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after accounting period commencing from 1 January 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of profit or loss on disposal.

(o) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

(i) The group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Leasing (Continued)

(ii) Operating lease charges

Where the group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The lease premium for land represents the cost of acquiring land held under an operating lease, is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

(iii) Finance leases

Assets held under finance leases are recognised as fixed assets at amounts equal to the fair value of the leased assets, or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liabilities, net of finance charges, are recorded as obligations under finance leases.

Depreciation and impairment loss are calculated and recognised in the same manner as the depreciation and impairment loss on fixed assets as set out in note 5(d) and 5(h) respectively, except for the estimated useful lives cannot exceed the relevant lease terms, if shorter.

Minimum lease payments are apportioned between finance charge and the reduction of the outstanding liabilities. The finance charge is recognised in profit or loss over the lease term so as to produce a constant periodic rate of charge on the remaining balance of the obligation for each accounting period.

(iv) Leases of land and building

Whenever necessary in order to classify and account for a lease of land and building, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

The land element is classified as an operating lease unless title is expected to pass to the lessee by the end of the lease term. The building element is classified as a finance or operating lease in the same way as leases of other assets.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Leasing (Continued)

(iv) Leases of land and building (Continued)

Where the lease payments on a lease of land and building cannot be allocated reliably between the land and building elements at the inception of the lease, the entire lease is classified as a finance lease, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

(p) Trade and other receivables

Trade and other receivables are initially measured at fair value and, after initial recognition, at amortised cost less impairment losses for bad and doubtful debts, if any, except for the following receivables:

— Interest-free loans made to related parties without any fixed repayment terms or the effect of discounting being immaterial, that are measured at cost less impairment losses for bad and doubtful debt, if any; and

— Short-term receivables with no stated interest rate and the effect of discounting being immaterial, that are measured at their original invoice amount less impairment losses for bad and doubtful debt, if any.

At each balance sheet date, the company assesses whether there is any objective evidence that a receivable or group of receivables is impaired. Impairment losses on trade and other receivables are recognised in income statement when there is objective evidence that an impairment loss has been incurred and are measured as the difference between the receivable's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at its original effective interest rate, i.e. the effective interest rate computed at initial recognition.

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(r) Trade and other payables

Trade and other payables are initially measured at fair value and thereafter stated at amortised cost, unless the effect of discounting would be immaterial, in which case they stated at cost.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Related parties

For the purposes of these financial statements, parties are considered to be related to the group if the group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the group or of any entity that is a related party of the group.

(t) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(u) Segment reporting

A segment is a distinguishable component of the group that is engaged either in providing an individual product or service or a group of related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the group's internal financial reporting system, the group has chosen business segment information as the primary reporting format. The group's operations are primarily in Hong Kong and all of the group's turnover is attributable to businesses conducted in Hong Kong. Consequently, no geographical segment analysis is presented.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment assets consist primarily of property, plant and equipment, inventories, available-for-sale investments, receivables and operating cash. Segment liabilities include all operating liabilities and consist principally of accounts payable, wages, convertible notes and accrued liabilities. Segment liabilities do not include deferred income taxes. Capital expenditure comprises additions to property, plant and equipment (Note 17).

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Segment reporting (Continued)

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated liabilities mainly are interest-bearing loans and borrowings.

(v) Convertible note

Convertible note that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments. At initial recognition the liability component of the convertible note is calculated as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the convertible note equity reserve until either the note is converted or redeemed.

If the note is converted, the convertible note equity reserve, together with the carrying value of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the convertible note equity reserve is released directly to retained profits.

6. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In preparing these financial statements, management is required to exercise significant judgments in the selection and application of accounting principles, including making estimates and assumptions. The following is a review of the more significant accounting policies that are impacted by judgments and uncertainties and for which different amounts may be reported under a different set of conditions or using different assumptions.

(a) Judgements

In the process of applying the group's accounting policies; management has made the following judgements, apart from those involving estimations, which have significant effect on the amounts recognised in the financial statements.

6. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

(b) Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Useful lives and residual values of property, plant and equipment

The group estimates the useful lives and residual values-of its property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives and residual values of the property, plant and equipment are reviewed annually and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, the group's estimation of the useful lives and residual values of its property, plant and equipment is based on its collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in those estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives and residual value of the group's property, plant and equipment would increase its recorded depreciation expenses and decrease its non-current assets.

(ii) Deferred tax assets

The group reviews the carrying amounts at each balance sheet date and estimate whether the group will generate sufficient taxable profit to allow all or part of the deferred assets to be utilised.

(iii) Impairment losses for bad and doubtful accounts

The policy for impairment losses for bad and doubtful debts of the group is based on the evaluation of collectibility and aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the group were to deteriorate thus resulting in an impairment of their ability to make payments, additional allowances for impairment losses may be required.

(iv) Impairment losses for inventories

The group estimates the impairment losses for inventories based on the best available facts and circumstances, including but not limited to, the inventories' own conditions (i.e. whether they are damaged or become wholly or partially obsolete), their market selling prices, estimated costs of completion and estimated costs to be incurred for their sale. The impairment losses are re-evaluated and adjusted where additional information received affects the amount estimated.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The group's major financial instruments include equity and debt investments, borrowings, trade receivables, trade payables, loan receivables and bank balances and cash. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) Credit risk

The group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 March 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management has implemented internal control procedures for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In this regard, the directors of the company consider that the group's credit risk is significantly reduced. In addition, the group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

(ii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The group aims at maintaining the flexibility in funding by arranging banking facilities and other external financing. Therefore, the risk is considered minimal.

(iii) Cash flow interest rate risk

The group's exposure to cash flow interest rate risk is mainly on its interest-bearing borrowings with third parties. It is a common practice in Hong Kong to have floating rate borrowings with third parties.

The group's fair value interest rate risk relates primarily to fixed-rate convertible note which details have been disclosed in note 34 to the financial statements. The group will continue to review the market trend, as well as its business operation needs and its financial position in order to identify the most effective tools for interest rate risk management.

(iv) Fair value

All financial instruments are stated at amounts not materially different from the respective fair values as at 31 March 2006 and 2005.

For the year ended 31 March 2006

8. TURNOVER AND OTHER REVENUES

Turnover represents the gross proceeds received and receivable derived from the sales of newspapers, magazines, books and advertisement income are summarized as follows:

	2006	2005
	HK$'000	HK$'000
Turnover		
Sales of newspapers, magazine and books	**54,384**	60,278
Newspapers and magazine advertising income	**29,644**	48,413
Sales of goods, net of discounts and allowances	**23**	5
	84,051	108,696
Other revenue		
Bank interest income	**116**	176
Sundry income	**3,569**	2,308
	3,685	2,484
	87,736	111,180

Included in newspapers and magazine advertising income is approximately HK$1,374,000 (2005: HK$4,808,000) in respect of barter transactions entered into during the year.

9. SEGMENT INFORMATION

Business segment

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

An analysis of the group's turnover and net loss for the year and assets and liabilities by business segments is as follows:

	For the year ended 31 March 2006			
	Newspaper, magazine and book business HK$'000	Website business HK$'000	Others HK$'000	Consolidated HK$'000
Revenue from external customers	84,028	—	23	84,051
Other revenue	—	—	—	3,685
Segment results	(82,860)	(2,853)	(161)	(85,874)
Interest income	—	—	—	116
Unallocated corporate expenses	—	—	—	—
Operating loss	—	—	—	(85,758)
Finance costs	—	—	—	(15,733)
Share of results of an associate	—	—	—	(866)
Loss before taxation	—	—	—	(102,357)
Taxation	—	—	—	1,385
Loss attributable to equity shareholders of the company	—	—	—	(100,972)
ASSETS				
Segment assets	47,609	1,514	53	49,176
Interest in an associate	—	—	—	717
Consolidated total assets	—	—	—	49,893
LIABILITIES				
Segment liabilities	35,986	1,027	2,164	39,177
Unallocated corporate liabilities	—	—	—	156,368
Consolidated total liabilities	—	—	—	195,545
OTHER INFORMATION				
Capital expenditure				
— Property, plant and equipment	158	—	—	158
Depreciation and amortisation	19,520	75	—	19,595
Impairment loss on bad and doubtful debts	641	—	187	828
Loss on fair value change on available-for-sale investments	—	—	133	133

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.

9. SEGMENT INFORMATION (Continued)

Business segment (Continued)

	For the year ended 31 March 2005			
	Newspaper, magazine and book business HK$'000 (Restated)	Website business HK$'000	Others HK$'000	Consolidated HK$'000 (Restated)
Turnover	108,691	—	5	108,696
Other revenue	—	—	—	2,484
Segment results	(91,661)	—	(2,696)	(94,357)
Interest income	—	—	—	176
Unallocated corporate expenses	—	—	—	(16)
Operating loss	—	—	—	(94,197)
Finance costs	—	—	—	(4,746)
Share of results of an associate	—	—	—	(1,755)
Loss before taxation	—	—	—	(100,698)
Taxation	—	—	—	—
Minority interests	—	—	—	8
Loss attributable to equity shareholders of company	—	—	—	(100,690)
ASSETS				
Segment assets	76,210	1,646	2,359	80,215
Interest in an associate	—	—	—	1,540
Consolidated total assets	—	—	—	81,755
LIABILITIES				
Segment liabilities	25,414	962	2,104	28,480
Unallocated corporate liabilities	—	—	—	114,257
Consolidated total liabilities	—	—	—	142,737
OTHER INFORMATION				
Capital expenditure				
— Property, plant and equipment	1,693	—	—	1,693
Depreciation and amortisation	19,549	172	4	19,725
Unrealised loss on investment	—	—	16	16
Impairment loss on bad and doubtful debts	289	—	—	289

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.

10. FINANCE COSTS

	2006 HK$'000	2005 HK$'000
Interest on:		
Convertible note	**8,184**	—
Finance lease overdue interest	**1,166**	—
Other loans	**3,575**	2,646
Finance leases	**95**	466
Advances from a substantial shareholder	**2,291**	1,243
Loans from related companies	**401**	370
Amount due to a shareholder	**21**	21
	15,733	4,746

11. LOSS BEFORE TAXATION

Loss before taxation has been arrived at after crediting and charging the following:

	2006 HK$'000	2005 HK$'000 (Restated)
Crediting:		
Interest income	116	176
Charging:		
Auditors' remuneration		
— audit fee underprovided in prior year	13	—
— audit fee for the current year	430	520
Depreciation		
— own property, plant and equipment	6,577	2,486
— leased property, plant and equipment	13,018	17,239
Amortisation of lease premium for land	3	3
Impairment for bad and doubtful debts	828	289
Unrealised loss on investments in securities	—	16
Loss on disposal of property, plant and equipment	53	538
Loss on deconsolidation of a subsidiary	9	—
Staff costs including directors' fees and emoluments (Note 12), including provision for long service payment and provision for annual leave	76,803	79,684
Operating lease rentals: minimum lease payment		
— machinery	398	397
— Internet leased line	85	81
— office premises	4,717	4,326
Cost of inventories recognised as expenses	40,498	50,901
Share of tax of an associate	—	—

12. EMOLUMENTS OF DIRECTORS AND EMPLOYEES

Directors

	Director's fees HK$'000	Basic salaries HK$'000	Allowances and other benefits HK$'000	Employer's Contribution to pension scheme HK$'000	2006 Total HK$'000
Executive Directors					
Cui En Qing	—	60	—	—	60
Xing Jing	—	1,050	—	—	1,050
Non Executive Director					
Kwok Yat Ming	—	940	—	12	952
Independent Non-Executive Directors					
Lam Cheung Shing, Richard	10	—	—	—	10
Shi Bin Hai	96	—	—	—	96
Yan Chun	96	—	—	—	96
Chan Ngai Sang Kenny	128	—	—	—	128

Directors

	Director's fees HK$'000	Basic salaries HK$'000	Allowances and other benefits HK$'000	Employer's Contribution to pension scheme HK$'000	2005 Total HK$'000
Executive Directors					
Lin Ning	—	1,028	—	7	1,035
Cui En Qing	—	150	—	—	150
Xing Jing	—	156	—	—	156
Tang Yuen Ching, Irene	—	35	—	1	36
Non Executive Director					
Shin Kei Yin, Stephen	—	379	—	5	384
Kwok Yat Ming	—	720	—	12	732
Independent Non-Executive Directors					
Shin Bin Hai	95	—	—	—	95
Yan Chun	48	—	—	—	48
Lam Cheung Shing, Richard	119	—	—	—	119

12. EMOLUMENTS OF DIRECTORS AND EMPLOYEES (Continued)

In addition to the above emoluments, certain directors had outstanding share options granted under the company's Share Option Scheme as referred in note 36. Details of these benefits in kind are disclosed under the section headed "DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES" in the DIRECTORS' REPORT.

In the absence of a ready market for the share options granted on the shares of the company, the directors are unable to arrive at an accurate assessment of the value of the share options granted to the respective directors.

Employees

The five highest paid individuals for the year included one (2005: two) director, details of whose emolument is set out above. The emoluments of the remaining four (2005: three) individuals during the year are as follows:

	2006	2005
	HK$'000	HK$'000
Salaries and benefits in kind	**2,806**	2,640
Retirement benefits contributions	**48**	34
	2,854	2,674

The emoluments of the four (2005: three) individuals were within the following bands:

	Number of employee(s)	
	2006	2005
Up to HK$1,000,000	**3**	2
HK$1,000,001 - HK$1,500,000	**1**	1
	4	3

13. INCOME TAX

No provision for Hong Kong profits tax has been made in the financial statements as the group had no estimated assessable profit for the year.

	The Group	
	2006	2005
	HK$'000	HK$'000
Hong Kong Profit Tax		
— current	**—**	—
— deferred tax (Note 39)	**1,385**	—
	1,385	—

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

	The Group	
	2006	2005
	HK$'000	HK$'000
		(Restated)
Loss before tax	**(102,357)**	(100,698)
Tax at Hong Kong profits tax rate of 17.5%	**(17,912)**	(17,622)
Tax effect of expenses not deductible for tax purpose	**8,934**	747
Tax effect of capital allowances	**(872)**	—
Tax effect of tax losses not recognised	**10,960**	16,585
Tax effect of utilisation of previously unrecognised tax losses	**—**	(17)
Tax effect of share of results of associate	**152**	307
Effect of different tax rates of operations in other jurisdictions	**78**	—
Tax effect of underprovision in prior year	**45**	—
Taxation credit for the year	**1,385**	—

Details of deferred taxation are set out in note 39.

14. LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated loss attributable to equity shareholders of the company includes a loss of approximately HK$73,104,000 (2005: loss of HK$95,005,000) which has been dealt with in the financial statements of the company.

15. DIVIDEND

The directors of the company do not recommend payment of any dividend for the year ended 31 March 2006 (2005: Nil).

16. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the group's net loss attributable to equity shareholders and on the weighted average number of ordinary shares in issue during the year as follows:

	2006	2005 (Restated)
Net loss for the year attributable to equity shareholders of the company and earnings for the purpose of basic loss per share	**HK$100,972,000**	HK$100,698,000
Weighted average number of ordinary shares	**991,686,000**	819,603,000

(b) Diluted earning per share

No disclosure of the diluted earning per share for the year under review and the corresponding previous year is shown as the issue of potential ordinary shares during both years from the exercise of the outstanding share options will be anti-dilutive.

17. PROPERTY, PLANT AND EQUIPMENT

The Group

	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
Cost							
At 1 April 2004, as restated	111	1,528	103,861	3,110	8,727	1,182	118,519
Additions	–	–	–	88	1,605	–	1,693
Disposal/Written off	–	–	(1,317)	(473)	(27)	(147)	(1,964)
At 31 March 2005, as restated	111	1,528	102,544	2,725	10,305	1,035	118,248
Additions	–	–	–	55	103	–	158
Disposal	–	–	–	(56)	(4)	(108)	(168)
Written back arising from deconsolidation of a subsidiary	–	–	–	(25)	–	–	(25)
At 31 March 2006	111	1,528	102,544	2,699	10,404	927	118,213
Depreciation and amortisation							
At 1 April 2004, as restated	12	614	39,220	1,438	2,155	422	43,861
Charge for the year	5	264	17,212	491	1,575	178	19,725
Write back	–	–	(684)	(224)	(16)	(78)	(1,002)
At 31 March 2005 and 1 April 2005	17	878	55,748	1,705	3,714	522	62,584
Charge for the year	5	264	17,154	384	1,622	166	19,595
Write back	–	–	–	(38)	(1)	(72)	(111)
Written back arising from deconsolidation of a subsidiary	–	–	–	(12)	–	–	(12)
At 31 March 2006	22	1,142	72,902	2,039	5,335	616	82,056
Net book value							
At 31 March 2006	89	386	29,642	660	5,069	311	36,157
At 31 March 2005	94	650	46,796	1,020	6,591	513	55,664

Included in machinery and network and computer equipment are assets held under finance leases with net book values of HK$29,642,000 (2005: HK$45,690,000) and HK$2,294,353 (2005: HK$2,955,000), respectively.

18. LEASE PREMIUM FOR LAND

The Group

	HK$'000
Cost	
At 1 April 2004, 1 April 2005, as restated and at 31 March 2006	135
Accumulated amortisation	
At 1 April 2004, as restated	6
Charge for the year	3
At 31 March 2005	9
At 1 April 2005, as restated	9
Charge for the year	3
At 31 March 2006	12
Net book value	
At 31 March 2006	123
At 31 March 2005, as restated	126

The lease premium for land is located in Hong Kong and is held under a medium term lease and were amortised over the lease term on a straight-line basis.

19. INTEREST IN SUBSIDIARIES

	The Company	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**35,589**	35,589
Impairment loss recognised	**(35,589)**	(35,589)
	–	–

19. INTEREST IN SUBSIDIARIES (Continued)

(a) Particulars of the company's principal subsidiaries as at 31 March 2006 are as follows:

Name of subsidiary	Place of incorporation or establishment or registration/ operation	Paid up issued ordinary 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	The British Virgin Island ("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

19. INTEREST IN SUBSIDIARIES (Continued)

(a) Particulars of the company's principal subsidiaries as at 31 March 2006 are as follows: (Continued)

Name of subsidiary	Place of incorporation or establishment or registration/ operation	Paid up issued ordinary 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 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
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

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 and 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.

19. INTEREST IN SUBSIDIARIES (Continued)

(b) The group had 80% equity interest in 北京中錄音像有限責任公司 (北京中錄音像) at 1 April 2005. The group holds the equity interest through a Deed of Undertaking, a trust deed signed between the group and an individual (the trustee) on 7 August 2003. According to the directors of the company, 北京中錄音像 increased its registered and paid up capital and thus the group's equity interest in 北京中錄音像 was diluted from 80% to 40% and further diluted to 33% subsequent to the balance sheet date. The group also lost contact with the trustee. The group has been unable to exercise control over the financial and operating decisions of 北京中錄音像, nor to get access to their books and records together with supporting documents. The board of directors considered that they were unable to execute the shareholder rights through the trustee. The validity of the ownership of the equity interest in 北京中錄音像 was subject to jurisdiction of civil proceedings and there were accumulated losses incurred in 北京中錄音像. Thus, the board of directors regarded the interest in 北京中錄音像 as available-for-sale investment. Accordingly, 北京中錄音像 was deconsolidated and reclassified as available-for-sale investment having nil carrying value with effect from 1 September 2005. As per details provided on note 38(b), loss on deconsolidation was approximately HK$9,000, full impairment loss was provided for the amount due to the group of HK$187,000.

(c) The group had 100% equity interest in a subsidiary, 東方魅力資訊科技股份有限公司 (東方魅力資訊) at 31 March 2006. The directors of the company considered 東方魅力資訊 was in the process of liquidation and they were unable to exercise control over the financial and operating decisions of 東方魅力資訊. Thus they were unable to get access to the books and records together with supporting documents. The board of directors considered that as the results of liquidation were not finalized, the net liabilities of approximately HK$30,219,000 of 東方魅力資訊 was consolidated in the consolidated financial statements as at 31 March 2006.

20. AMOUNTS DUE FROM SUBSIDIARIES

	The Company	
	2006	2005
	HK$'000	HK$'000
Amounts due from subsidiaries	**799,457**	748,167
Impairment loss for bad and doubtful debts	**(798,947)**	(739,947)
	510	8,220

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 2006, the directors reviewed the carrying value of the amounts due from its subsidiaries with reference to the businesses operated by these subsidiaries. Impairment loss of HK$59,000,000 (2005: HK$90,000,000) has been recognised in the company's income statement.

21. INTEREST IN AN ASSOCIATE

	The Group	
	2006	2005
	HK$'000	HK$'000
Share of net assets	**717**	1,540

Particular of the group's associate as at 31 March, 2006 is as follows:

Name of associate	Form of business structure	Place of registration/ operations	Registered capital	Percentage of equity interests attributable to the Group	Principal activities
北京中青在線網絡信息技術有限公司	Sino-foreign joint venture	The People's Republic of China	RMB5,000,000	25%	Provision of networking and information services

For the year ended 31 March 2006, the summary of financial information of the associate is as follows:

	2006	2005
	HK$'000	HK$'000
Non-current assets	**1,385**	2,084
Current assets	**2,008**	4,648
Current liabilities	**(524)**	(395)
Turnover	**276**	74
Loss for the year	**(3,626)**	(3,304)

22. AVAILABLE-FOR-SALE INVESTMENTS

	The Group	
	2006	2005
	HK$'000	HK$'000
Investments in		
— unlisted equity securities outside Hong Kong	**1,870**	—
— impairment loss on unlisted equity securities	**(1,870)**	—
	—	—
— listed equity securities in Hong Kong	**1,433**	—
	1,433	—

23. INVESTMENT IN SECURITIES

	The Group	
	Other investment	
	2006	2005
	HK$'000	HK$'000
Listed equity securities in Hong Kong, at fair value	**—**	1,567
Unlisted equity securities outside Hong Kong, at fair value	**—**	232
	—	1,799
Market value of listed securities in Hong Kong	**—**	1,567

24. INVENTORIES

	The Group	
	2006	2005
	HK$'000	HK$'000
Goods for sale	**1,108**	339
Printing materials	**485**	704
	1,593	1,043

25. TRADE AND OTHER RECEIVABLES

The group allows an average credit period of 30 days to 60 days to its trade debtors. The aged analysis of the trade receivables of HK$6,289,000 (2005: HK$9,792,000) which are included in the group's trade and other receivables, deposits and prepayments at the balance sheet date is as follows:

	The Group	
	2006	2005
	HK$'000	HK$'000
Trade receivables		
0-30 days	**4,779**	4,637
31-90 days	**511**	4,094
Over 90 days	**999**	1,061
	6,289	9,792
Other receivables, deposits and prepayments	**2,625**	4,688
Amount due from a related company (Note 27)	**46**	38
	8,960	14,518

The company did not have any trade receivables at 31 March 2006 and 2005. At 31 March 2006, the trade and other receivables were net of impairment loss on bad and doubtful debts of HK$1,763,640.

The fair value of the group's trade and other receivables, deposits and prepayments at 31 March 2006 approximated to the corresponding carrying amount.

26. CASH AND CASH EQUIVALENTS

	2006	2005
	HK$'000	HK$'000
Cash at bank and on hand	**910**	2,025
Cash and cash equivalents in the consolidated cash flow statement	**910**	2,025

27. AMOUNT DUE FROM A RELATED COMPANY

	2006 HK$'000	2005 HK$'000	Maximum outstanding balance for the year HK$'000
Sun Television Cybernetworks Enterprise Limited ("Sun television")	**46**	38	46

Sun Television is a company related to Mr. Hao Bin and Mr. Pao Wan Lung, the former is director of the company and the latter is a director of a wholly owned subsidiary. The amount due is unsecured, non-interest bearing and has no fixed terms of repayment.

28. TRADE AND OTHER PAYABLES

Included in trade and other payables and accrued charges are trade payables of HK$11,845,000 (2005: HK$13,801,000), the aged analysis of which at the balance sheet date is as follows:

	The Group	
	2006 HK$'000	2005 HK$'000
Trade payables		
0-30 days	**3,195**	5,250
31-90 days	**4,311**	6,054
Over 90 days	**4,339**	2,497
	11,845	13,801
Other payables and accrued charges	**27,332**	14,679
Amount due to a shareholder (Note 30)	**399**	378
	39,576	28,858

The company did not have any trade payables at 31 March 2006 and 2005.

The fair value of the group's trade and other payables and accrued charges at 31 March 2006 approximated to the corresponding carrying amount.

29. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases:				
Within one year	**462**	6,457	**443**	6,283
In the second to fifth year inclusive	**39**	534	**38**	459
	501	6,991	**481**	6,742
Less: Future finance charges	**(20)**	(249)		
Present value of lease obligations	**481**	6,742		
Less: Amount due for settlement within one year (shown under current liabilities)			**(443)**	(6,283)
Amount due for settlement after one year			**38**	459

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

An amount of HK$Nil (2005: HK$5,000,000) has been placed with a financial institution as security for the repayment of the remaining instalments.

30. AMOUNT DUE TO A SHAREHOLDER

The amount due to a shareholder of the company represents the unsecured advances from a shareholder which bear interest at 7% (2005: 7%) per annum and is repayable on demand.

31. ADVANCES FROM A SUBSTANTIAL SHAREHOLDER

The amounts of the group and the company represent the unsecured loans granted by Strategic Media International Limited which bear interest at Hong Kong prime interest rate plus 1% per annum. These advances are repayable on or before 1 September 2007. Strategic Media International Limited is a substantial shareholder of the company.

32. LONG-TERM LOANS FROM RELATED COMPANIES

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Star East Management Limited	**1,192**	3,292	**—**	—
SMI Corporation Limited	**5,161**	4,863	**5,161**	4,863
	6,353	8,155	**5,161**	4,863

The amounts of the group and the company represent the loans granted by companies with Strategic Media International Limited as the common substantial shareholder and carry same terms as other loans as set out in note 33.

33. 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.

34. CONVERTIBLE NOTE

Pursuant to a subscription agreement dated 3 February 2005, the convertible note ("the Note") was issued on 30 April 2005 and will expire on 29 April 2007. Holder of the Note has the right at any time to convert all or some of the Note into shares of the company, at the conversion price of HK$0.05 per share, subject to adjustment. The rate at which interest is charged on the Note is 1.5% per annum on the principal amount between the issue date and the maturity date. Interest is payable by the company once every six months in arrears so as to produce a constant periodic rate of charge for each accounting period.

The company has the right at any time upon not less than fourteen days notice in writing to the Note holder to redeem all or part of the outstanding principal amount of this Note.

On 13 May 2005, pursuant to the Condition 11 of the Note, the company has been in default due to two reasons: (i) trading of the company's shares on the GEM was suspended for a continuous period of more than ten business days on each of which the GEM is generally open for trading; (ii) failed to pay the Note holder interest accrued. The Note holder has however agreed to waive all their rights to give notice demanding immediate repayment of the principal amount of the Note, interest accrued pursuant to Condition 11(a)(2) of the Note regarding the continuous suspension of trading in the shares on the GEM and Condition 11(f) of the Note regarding the company's failure to pay the Note holder interest accrued and interest payable between the date of issue of the Note and the maturity date under Condition 3.1 of the Note.

34. CONVERTIBLE NOTE (Continued)

The fair value of the Note at 30 April 2005, the date of issuance of the Note and 13 May 2005 were approximated to the corresponding carrying amount in accordance with valuation reports prepared by an independent valuer.

The fair value of the liability component of the Note was calculated using a market interest rate for an equivalent non-convertible note. The residual amount, representing the value of the equity conversion component, is included in equity.

The Note recognised in the balance sheets are calculated as follows:

	The Group and The Company	
	2006	2005
	HK$'000	HK$'000
Nominal amount of the Note issued on 30 April 2005	**50,000**	—
Equity component	**(14,100)**	—
Liability component on initial recognition	**35,900**	—
Less: Direct transaction cost attributable to liability component	**(329)**	—
	35,571	—
Accrued interest capitalized up to the date of amendment	**268**	—
	35,839	—
Waiver of accrued interest	**(268)**	—
Fair value change to liability component on the date of amendment	**(6,000)**	—
Additional appropriation of transaction cost attributable to liability component	**54**	—
Adjusted balance	**29,625**	—
Accrued interest capitalized from amendment date to balance sheet date	**7,916**	—
Liability component at 31 March 2006	**37,541**	—

Interest expense on the Note is calculated using the effective interest method by applying the effective interest rate of 19.64% per annum from the issue date to 13 May 2005 and 28.50% per annum from 14 May 2005 to the liability component.

The fair value of equity component net of the transaction cost was HK$19,917,000 on 13 May 2005, the date of amendment of the Note.

35. SHARE CAPITAL

	Number of shares	Value HK$'000
Ordinary shares		
Authorised:		
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
At 1 April 2005 and 31 March 2006, 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
At 1 April 2005 and 31 March 2006, 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.

(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.

35. SHARE CAPITAL (Continued)

(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.

36. EQUITY-SETTLED SHARE-BASED TRANSACTIONS

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. The share options were vested immediately at the time when granted.

No consideration was received during the year ended 31 March 2006 and 31 March 2005.

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 years:

Date of grant	Exercisable period	Exercise price per share	Outstanding/ Exercisable Balance at 1/4/2005	Granted during the year	Exercised during the year	Lapsed upon resignation	Outstanding/ Exercisable Balance at 31/3/2006
		HK$					
Directors of the company							
13/8/2003	13/8/2003 to 12/8/2013	0.395	6,434,400	–	–	(6,434,400)	–
Employees of the company’s subsidiaries							
13/8/2003	13/8/2003 to 12/8/2013	0.395	16,086,000	–	–	(6,434,400)	9,651,600
			22,520,400	–	–	(12,868,800)	9,651,600

36. EQUITY-SETTLED SHARE-BASED TRANSACTIONS (Continued)

Date of grant	Exercisable period	Exercise price per share HK$ (Note)	Balance at 1/4/2004	Granted during the year	Exercised during the year	Adjusted on 6/9/2004 HK$ (Note)	Lapsed upon resignation	Balance at 31/3/2005
Directors of the company								
13/8/2003	13/8/2003 to 12/8/2013	0.395	6,970,600	–	–	2,144,800	(2,681,000)	6,434,400
Employees of the company's subsidiaries								
13/8/2003	13/8/2003 to 12/8/2013	0.395	16,086,000	–	–	5,362,000	(5,362,000)	16,086,000
			23,056,600	–	–	7,506,800	(8,043,000)	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.

The company has not apply HKFRS 2 Share-based Payment (HKFRS 2) as the share options were granted and vested before the effective date of 1 January 2005 of HKFRS 2. Recognition of share option expense will only recognise in the income statement until such time as the options are exercised. 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.

37. RESERVES

The Company

	Convertible note equity reserve	Shareholders' contributions	Share premium	Distributable reserve	Contributed surplus	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 April 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)
Balance at 31 March 2005	–	49,087	127,764	231,340	5,589	(528,054)	(114,274)
Balance at 1 April 2005	–	49,087	127,764	231,340	5,589	(528,054)	(114,274)
Recognition of equity component of convertible note (note 34)	19,917	–	–	–	–	–	19,917
Deferred tax liability on recognition of equity component of convertible note (Note 39)	(3,485)	–	–	–	–	–	(3,485)
Loss for the year	–	–	–	–	–	(73,104)	(73,104)
Balance at 31 March 2006	16,432	49,087	127,764	231,340	5,589	(601,158)	(170,946)

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.

The company did not have any reserves available for distribution at 31 March 2006 and 2005.

38. NOTES TO CASH FLOW STATEMENT

(a) Reconciliation of loss before taxation to net cash used in operating activities

	2006 **HK$'000**	2005 HK$'000 (Restated)
Loss before taxation	**(102,357)**	(100,698)
Adjustment for:		
Unrealised loss on investment in securities	**—**	16
Impairment loss on bad and doubtful debts	**828**	289
Interest income	**(116)**	(176)
Interest expenses	**15,733**	4,746
Written back of interest accrued	**(268)**	—
Depreciation and amortisation	**19,598**	19,728
Share of profit less loss of an associate	**866**	1,755
Loss on disposal of property, plant and equipment	**53**	538
Loss arising on deconsolidation of a subsidiary	**9**	—
Operating loss before working capital changes	**(65,654)**	(73,802)
(Increase)/decrease in inventories	**(552)**	1,562
Decrease in trade and other receivables	**2,608**	3,566
Increase in trade and other payables	**10,874**	11,371
Decrease in prepaid airtime	**—**	13,802
Cash used in operations	**(52,724)**	(43,501)
Bank interest paid	**(1,537)**	—
Finance lease charges	**—**	(466)
Repayment of interest payable to a substantial shareholder/related company	**—**	(398)
Interest received	**116**	176
Net cash used in operating activities	**(54,145)**	(44,189)

38. NOTES TO CASH FLOW STATEMENT (Continued)

(b) Deconsolidation of a subsidiary

As mentioned in note 19(b), the group deconsolidated on 1 September 2005 a subsidiary, 北京中錄音像有限責任公司. The net assets of 北京中錄音像有限責任公司 at 1 September 2005 and 31 March 2005 were as follows:

	At 1/9/2005 (Unaudited) HK$'000	At 31/3/2005 HK$'000
Net assets disposed of		
Property, plant and equipment	**13**	15
Available-for-sale investments	**232**	232
Inventories	**3**	3
Trade and other receivables	**106**	102
Bank balances and cash	**19**	3
Trade and other payables	**(177)**	(140)
Amount due to the group	**(187)**	(187)
	9	28
Loss on deconsolidation of a subsidiary	**(9)**	
	–	
Analysis of net outflow of cash and cash equivalents in respect of deconsolidation of subsidiary:		
Cash of a subsidiary deconsolidated	**19**	

The deconsolidation of a subsidiary during the year did not have significant cash flows attributed to the group.

38. NOTES TO CASH FLOW STATEMENT (Continued)

(c) Major non-cash transaction

For the year ended 31 March 2006, the group issued HK$50 million convertible note to Strategic Media International Limited (SMIL), a substantial shareholder of the company, in which HK$45 million had been applied to repay loans and accrued interest due to SMIL. Net cash provided to the group was HK$5 million.

Pursuant to two set off agreements dated 29 June 2005 and 30 September 2005, amounts due from two debtors, Cosemedia Studios Group Ltd and Glory Travel Services Company Limited of HK$2,131,820 and HK$71,076 respectively were agreed to set off with advances from a related company, Star East Management Limited.

In addition, there was accrued loan interest in aggregate amount of approximately HK$6,012,000 incurred for the year.

39. DEFERRED TAXATION

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

The Group

	Accelerated tax depreciation	Allowance for bad and doubtful debts	Tax losses	Convertible note equity component	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 April 2004	9,194	—	(9,194)	—	—
(Credit)/charge to profit or loss for the year	(2,631)	(51)	2,682	—	—
At 1 April 2005	6,563	(51)	(6,512)	—	—
Charge to equity for the year	—	—	—	3,485	3,485
(Credit)/charge to profit or loss for the year	(2,600)	(144)	2,744	(1,385)	(1,385)
At 31 March 2006	3,963	(195)	(3,768)	2,100	2,100

39. DEFERRED TAXATION (Continued)

The Company

	Convertible note equity component HK$'000	**Total** HK$'000
At 1 April 2004	—	—
(Credit)/charge to profit or loss for the year	—	—
At 1 April 2005	—	—
Charge to equity for the year	3,485	3,485
(Credit)/charge to profit or loss for the year	(1,385)	(1,385)
At 31 March 2006	2,100	2,100

At 31 March 2006, the group has unused tax losses of approximately HK$714,454,000 (2005: HK$663,335,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$21,531,000 (2005: HK$37,213,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$692,923,000 (2005: HK$626,122,000) due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

At 31 March 2006, the company has unused tax losses of approximately HK$2,682,000 (2005: HK$2,682,000) 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.

40. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the group entered into the following related party transactions.

Nature of transactions	**Name of related parties**	*Note*	**The Group** **2006** **HK$'000**	2005 HK$'000
Interest expenses on amount due to a shareholder	Mr. Li Rong Wei		**21**	21
Interest expenses on advances from a substantial shareholder	Strategic Media International Limited		**2,291**	1,243
Interest expenses on long-term loans from related companies	Star East Management Limited	*(a)*	**103**	150
	SMI Corporation Limited	*(a)*	**298**	220

40. RELATED PARTY TRANSACTIONS (Continued)

Note:

(a) Interest expenses for the loans from SMI Corporation Limited and Star East Management Limited, companies with Strategic Media International Limited as common substantial shareholder, were calculated at Hong Kong prime interest rate per annum in accordance with the loan agreements.

Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the company's directors as disclosed in note 12 and the five highest paid employees as disclosed in note 12, is amounted to approximately HK$3,806,000 (2005: HK$4,441,000) as short term benefits.

41. OPERATING LEASE COMMITMENTS

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	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Within one year	**4,441**	2,884	**398**	398	**–**	90
In the second to fifth year inclusive	**–**	–	**996**	1,394	**–**	–
	4,441	2,884	**1,394**	1,792	**–**	90

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.

42. CONTINGENT LIABILITIES

At 31 March 2006, the company has provided a guarantee to a subsidiary, Sing Pao Newspaper Company Limited in respect of the obligations under finance leases at the net book value of HK$245,000 (2005: HK$192,000).

During the year, a sum of HK$4,685,000 literary contribution fee was paid to certain individuals. The Inland Revenue Ordinance requires the group as an employer, to submit tax return for all recipient receiving HK$25,000 or more per annum to the Inland Revenue Department. Penalty may be charged against the group for failure to fulfil the employer's obligations.

Sing Pao Newspaper Company Limited, a wholly-owned subsidiary of the group, has been accused by the Television & Entertainment Licensing Authority for breach of the Control of Obscene and Indecent Articles Ordinance. A writ of summons issued by the Eastern Magistrate's Court was received in March 2006. Court judgment has not been stated and penalty amount cannot be ascertained yet.

42. CONTINGENT LIABILITIES (Continued)

Sing Pao Newspaper Company Limited has been claimed by a news publisher for infringement of copyright work. A writ of summons was received from the Court of First Instance in June 2005. Court judgment has not been stated and amount claimed cannot be ascertained yet.

There were several cases brought forward from prior years related to defamation that remained unsolved. All of them were brought against Sing Pao Newspaper Company Limited. Court judgements have not been stated and amounts claimed were in aggregate totalled not less than HK$517,000.

43. RETIREMENT BENEFITS SCHEME

The group operates a Mandatory Provident Fund ("MPF") scheme for all Hong Kong eligible employees including executive directors. The assets of the MPF scheme are held separately from those of the group in funds under the control of trustees.

The retirement benefit cost for the MPF scheme charged to profit or loss for the year represents contributions payable to the MPF scheme by the group at rates specified in the rules of the MPF scheme.

The group maintains the MPF scheme for all qualifying employees in Hong Kong. The group's and employee's contributions to the MPF scheme are based on 5% of the relevant income of the relevant employee (up to a cap of monthly relevant income of HK$20,000) and in accordance with the requirements of the Mandatory Provident Fund Scheme Ordinance and related regulations. Contributions to the plan vest immediately.

Total cost charged to income statement of HK$2,937,000 (2005: HK$3,311,000) represents contributions payable to the scheme in respect of the current accounting period. As at 31 March 2006, contributions of HK$1,756,000 (2005: HK$1,473,000) due in respect of the reporting period had not been paid over to the scheme.

44. LITIGATION

During the year, Sing Pao Newspaper Management Limited, a wholly-owned subsidiary of the group, has been claimed by the landlord of the group (the Landlord) for approximately HK$2 million, being the overdue rental charges and miscellaneous fees for the tenancy period from January to February 2006. The group received a writ of summons issued by the Registry of the High Court in February 2006. Such claim was fully provided in the financial statements. In order to relieve from the vacant possession of the office premises, settlement was made in June 2006.

Subsequent to the balance sheet date, the Landlord of the office premises of the group has applied to the High Court to claim for the overdue rental charges for the tenancy period from July to August 2006 and miscellaneous fees which amounted to approximately HK$1.9 million. Although the claim has been settled to the Landlord in October 2006, the High Court has adjudged the Landlord a right to resumption of the office premises. The group has signed another tenancy agreement and moved out from the above mentioned premises, the directors considered the operation had not been disrupted and was carried out smoothly.

44. LITIGATION (Continued)

In May 2006, the group received a writ of summons issued by the Registry of the High Court against Sing Pao Newspaper Management Limited. The claim was made by the Mandatory Provident Fund Schemes Authority for default contribution for the period from October 2005 to March 2006. Such claim amounting to approximately HK$1.4 million was fully provided in the financial statements and settled in July 2006.

In October 2006, the group received a writ of summons issued by the District Court against Sing Pao Newspaper Company Limited. The claim was made by a news service provider of the group for approximately HK$420,000, being news, telephoto and graphics services provided. The claimed amount was provided in the consolidated financial statements during the period from April to November 2005. Court judgment has not been stated yet.

In addition, Sing Pao Newspaper Company Limited has been accused by the Labour Department for delay in the payment of wages to 11 summons. Hearing at the Eastern Magistrate's Court was attended by the group's representatives in September 2006. Court judgment has not been stated and penalty amount cannot be ascertained yet.

45. HOLDING AND ULTIMATE HOLDING COMPANY

At 31 March 2006, the directors consider the holding and ultimate controlling party of the group to be Strategic Media International Limited, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

46. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.