



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



2005
Interim Report

SMI Publishing Group Limited

(incorporated in the Cayman Islands with limited liability)

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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

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

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

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

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

As of the date hereof, the board of the Company (the “Board”) comprises seven Directors, of which three are executive Directors, namely Mr. XING Jing, Mr. LI Kai and Mr. HAO Bin; one is non-executive Director, namely Mr. KWOK Yat Ming and three are independent non-executive Directors, namely, Mr. SHI Bin Hai, Mr. YAN Chun and Mr. CHAN Ngai Sang, Kenny.

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

The board of directors (the "Board") of SMI Publishing Group Limited (the "Company") and its subsidiaries (together the "Group") announces the unaudited consolidated results of the Group for the three months and six months ended 30 September 2005, together with the comparative unaudited figures for the corresponding periods in 2004 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Three months ended 30 September		Six months ended 30 September	
		2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Turnover	2	21,421	28,909	44,806	56,182
Cost of sales		(32,141)	(38,121)	(65,632)	(75,332)
Gross loss		(10,720)	(9,212)	(20,826)	(19,150)
Other operating income		1,102	595	1,740	1,232
Advertising and promotion expenses	4	(874)	(4,471)	(1,441)	(8,293)
Administrative expenses		(7,819)	(10,254)	(15,818)	(21,172)
Unrealised gain (loss) on investments in securities		183	(283)	(200)	(83)
Loss from operations	5	(18,128)	(23,625)	(36,545)	(47,466)
Finance costs	6	(1,923)	(1,210)	(3,982)	(2,301)
Share of results of associates		(242)	(176)	(450)	(265)
Loss before taxation		(20,293)	(25,011)	(40,977)	(50,032)
Taxation	7	—	—	—	—
Loss for the period		(20,293)	(25,011)	(40,977)	(50,032)
Attributable to:					
Equity holders of the Company		(20,293)	(25,000)	(40,977)	(50,035)
Minority interests		—	(11)	—	3
Net loss for the period		(20,293)	(25,011)	(40,977)	(50,032)
Loss per share — basic (HK\$)	8	(0.020)	(0.033)	(0.041)	(0.072)

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	As at 30 September 2005 (Unaudited) HK\$'000	As at 31 March 2005 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	46,087	55,780
Interest in an associate		1,090	1,540
Investments in securities		1,599	1,799
		48,776	59,119
CURRENT ASSETS			
Inventories		1,443	1,043
Trade and other receivables	10	11,299	14,518
Pledged deposit placed with a finance company		—	5,000
Bank balances and cash		1,785	2,025
		14,527	22,586
CURRENT LIABILITIES			
Trade and other payables	11	20,301	28,480
Amount due to a shareholder		389	378
Tax payable		—	—
Obligations under finance leases — due within one year		768	6,283
		21,458	35,141
NET CURRENT LIABILITIES		(6,931)	(12,555)
TOTAL ASSETS LESS CURRENT LIABILITIES		41,845	46,564
NON-CURRENT LIABILITIES			
Obligations under finance leases — due after one year		153	459
Advances from a substantial shareholder/related company		27,215	40,569
Long-term loans from related companies		6,168	8,155
Other loans		60,004	58,413
Convertible notes		46,208	—
		139,748	107,596
		(97,903)	(61,032)
CAPITAL AND RESERVES			
Share capital	12	49,584	49,584
Reserves		(147,487)	(110,616)
		(97,903)	(61,032)

CONDENSED CONSOLIDATION STATEMENT OF CHANGES IN EQUITY (UNAUDITED)*For the six months ended 30 September 2005*

	Attributable to equity holders of the Company								Total
	Share capital	Share Premium	Shareholders' contributions	Merger reserve	Exchange reserve	Distributable reserve	Accumulated losses	Minority Interest	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2004									
(Audited)	27,556	126,075	72,894	121,914	2,304	231,340	(566,140)	8	15,951
Issue of shares	5,500	3,300							8,800
Share issue expenses	—	(365)							(365)
Rights issue of shares	16,528	—							16,528
Rights issue expenses	—	(1,235)							(1,235)
Net loss of the period	—	—					(50,035)	3	(50,032)
At 30 September 2004	49,584	127,775	72,894	121,914	2,304	231,340	(616,175)	11	(10,353)
At 1 April 2005									
(Audited)	49,584	127,764	72,894	121,914	2,304	231,340	(666,832)	—	(61,032)
Equity Reserve	—	—	—	—	—	4,106	—	—	4,106
Net loss of the period	—	—	—	—	—	—	(40,977)	—	(40,977)
At 30 September 2005	49,584	127,764	72,894	121,914	2,304	235,446	(707,809)	—	(97,903)

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended	
	30 September	
	2005	2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash used in operations	(31,868)	(29,700)
Net cash used in investing activities	(144)	(148)
Net cash from financing activities	31,772	30,815
Net (decrease)/increase in cash and cash equivalents	(240)	967
Cash and cash equivalents at 1 April	2,025	2,480
Cash and cash equivalents at 30 September, representing bank balances and cash	1,785	3,447
Analysis of balances of cash and cash equivalents		
Cash and bank balances	1,785	8,447
Less: Deposit pledged	—	(5,000)
	1,785	3,447

Notes:

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The Group's unaudited consolidated results have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). They have been prepared under the historical cost convention, as modified for the revaluation of certain investments in securities.

In 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The adoption of these new HKFRSs had no material impact on the Group's result of operations and financial position.

The comparative financial statements for 2004 have been restated in accordance with the relevant requirements of the new HKFRSs, if applicable.

Except for the change of presentation of Minority Interest on adoption of the new HKFRSs, the accounting policies and methods of computation adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2005. The accounts are unaudited but have been reviewed by the Company's audit committee.

2. TURNOVER

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

	Three months ended		Six months ended	
	30 September		30 September	
	2005	2004	2005	2004
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Newspapers advertising income	7,582	14,166	16,477	25,717
Sales of newspapers	13,606	14,738	27,938	30,460
Sales of books	212	—	368	—
Sales of goods, net of discounts and allowances	21	5	23	5
	21,421	28,909	44,806	56,182

Included in newspapers and magazines advertising income is approximately HK\$398,000 (2004: HK\$2,378,000) in respect of barter transactions entered into during the period.

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

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

(i) For the six months ended 30 September 2005

	Newspaper and books business (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Turnover	44,783	23	44,806
Segment result	(35,118)	(1,529)	(36,647)
Interest income			102
Loss from operations			(36,545)
Finance costs			(3,982)
Share of results of associates			(450)
Loss before taxation			(40,977)
Taxation			—
Loss for the period			(40,977)
ASSETS			
Segment assets	59,886	2,327	62,213
Interests in an associate			1,090
Consolidated total assets			63,303
LIABILITIES			
Segment liabilities	(17,930)	(2,371)	(20,301)
Unallocated corporate liabilities			(140,905)
Consolidated total liabilities			(161,206)
OTHER INFORMATION			
Capital expenditure — property, plant and equipment	146	—	146
Depreciation and amortisation	9,763	63	9,826
Unrealized loss on investments in securities	—	450	450

(ii) For the six months ended 30 September 2004

	Newspaper and books business (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Turnover	56,177	5	56,182
Segment result	(46,329)	(1,225)	(47,554)
Interest income			88
Loss from operations			(47,466)
Finance costs			(2,301)
Share of results of associates			(265)
Loss before taxation			(50,032)
Taxation			—
Loss for the period			(50,032)
ASSETS			
Segment assets	103,142	5,047	108,189
Interests in an associate			3,030
Consolidated total assets			111,219
LIABILITIES			
Segment liabilities	(19,141)	(3,142)	(22,283)
Unallocated corporate liabilities			(99,289)
Consolidated total liabilities			(121,572)
OTHER INFORMATION			
Capital expenditure — property, plant and equipment	1,346	—	1,346
Depreciation and amortisation	9,762	92	9,854
Unrealized loss on investments in securities	—	83	83

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.

4. ADVERTISING AND PROMOTION EXPENSES

	Three months ended 30 September 2005		Six months ended 30 September 2005	
	(Unaudited) HK\$'000	(Unaudited) 2004 HK\$'000	(Unaudited) HK\$'000	(Unaudited) 2004 HK\$'000
Amortization of prepaid airtime	—	3,577	—	5,637
Others expenses for advertising and promotion	874	894	1,441	2,656
	874	4,471	1,441	8,293

5. LOSS FROM OPERATIONS

	Three months ended 30 September 2005		Six months ended 30 September 2005	
	(Unaudited) HK\$'000	(Unaudited) 2004 HK\$'000	(Unaudited) HK\$'000	(Unaudited) 2004 HK\$'000
Loss from operations has been arrived at after charging (crediting):				
Depreciation and amortisation of property, plant and equipment	4,914	4,926	9,826	9,854
Cost of inventories charged as cost of sales	9,638	12,898	20,283	25,025
Interest income	(51)	(44)	(102)	(88)

6. FINANCE COSTS

	Three months ended 30 September 2005		Six months ended 30 September 2005	
	(Unaudited) HK\$'000	(Unaudited) 2004 HK\$'000	(Unaudited) HK\$'000	(Unaudited) 2004 HK\$'000
Interest on:				
Other loans	875	665	1,592	1,322
Finance leases	397	138	1,233	293
Loans from related companies	457	402	833	676
Amount due to a shareholder	5	5	10	10
Convertible notes	189	—	314	—
	1,923	1,210	3,982	2,301

7. TAXATION

No provision for Hong Kong Profits Tax has been made in the condensed interim financial statements as the Group had no estimated assessable profits for both periods.

Deferred taxation in respect of unused tax losses for the period has not been recognized due to the unpredictability of future profit streams.

8. LOSS PER SHARE

The calculation of the basic loss per share for the three months and six months ended 30 September 2005 is based on the respective unaudited consolidated loss attributable to equity holders of the Company of approximately HK\$20,293,000 and HK\$40,977,000 (2004: HK\$25,000,000 and HK\$50,035,000) and the weighted average number of 991,685,971 shares and 991,685,971 shares (2004: 750,950,609 shares and 691,255,400 shares) in issue during the periods.

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

9. PROPERTY, PLANT AND EQUIPMENT

	Land and Building	Leasehold Improvements	Machinery	Furniture, Fixtures and Equipment	Network and Computer Equipment	Motor Vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost							
At 1 April 2005 (Audited)	246	1,528	102,544	2,725	10,305	1,035	118,383
Additions	—	—	—	55	91	—	146
Disposals	—	—	—	(40)	(1)	—	(41)
At 30 September 2005	246	1,528	102,544	2,740	10,395	1,035	118,488
Depreciation							
At 1 April 2005 (Audited)	36	878	55,748	1,705	3,714	522	62,603
Provided for the period	5	132	8,577	217	810	85	9,826
Eliminated on disposals	—	—	—	(27)	(1)	—	(28)
At 30 September 2005	41	1,010	64,325	1,895	4,523	607	72,401
Net Book Values							
At 30 September 2005	205	518	38,219	845	5,872	428	46,087
At 31 March 2005 (Audited)	210	650	46,796	1,020	6,591	513	55,780

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

At 30 September 2005, included in property, plant and equipment are assets under finance leases with net book values of approximately HK\$2,553,000 (2004: HK\$57,138,000).

10. TRADE AND OTHER RECEIVABLES

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

	As at 30 September 2005 (Unaudited) HK\$'000	As at 31 March 2005 (Audited) HK\$'000
Zero to 30 days	3,623	4,637
31-90 days	2,392	4,094
Over 90 days	2,825	1,061
Trade receivables	8,840	9,792
Other receivables	2,459	4,726
	11,299	14,518

11. TRADE AND OTHER PAYABLES

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

	As at 30 September 2005 (Unaudited) HK\$'000	As at 31 March 2005 (Audited) HK\$'000
Zero to 30 days	4,942	5,250
31-90 days	2,606	6,054
Over 90 days	3,348	2,497
Trade payables	10,896	13,801
Other payables	9,405	14,679
	20,301	28,480

12. SHARE CAPITAL

	No. of shares	Amount HK\$'000
Authorised:		
At 1 April, 2005 and 30 September 2005, ordinary shares of HK\$0.05 each	4,000,000,000	200,000
Issued and fully paid:		
At 1 April 2005 and 30 September 2005 ordinary shares of HK\$0.05 each	991,685,971	49,584

INTERIM DIVIDEND

The board of directors of the Company resolved that no interim dividend was declared for the six months ended 30 September 2005 (2004: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS**Business Review**

For the six months ended 30 September 2005, the Group recorded a total turnover of approximately HK\$45 million, representing a decrease of 20% as compared with approximately HK\$56 million of the same period last year. The decrease was mainly attributable to decrease in revenue generated from advertising income and sales of newspaper. The loss attributable to equity holders of the Company for the six months ended 30 September 2005 was approximately HK\$41 million, a decrease of about 18% as compared with approximately HK\$50 million of the same period last year.

The Group has initiated a number of strategies in an effort to achieve profitability. Besides, the Group has managed to attain substantial savings on advertising and promotion expenses by approximately HK\$6.9 million as all prepaid airtime contracts have been performed last year and a strict selection process of appropriate promotional and marketing schemes was adopted in the period under review.

The Group implemented a cost cutting program in response to fierce competition of the local printed media industry, in conjunction with very strict cost controls. These measures lowered administrative expenses by approximately HK\$5.4 million,

representing a decrease of 25% as compared to the same period last year. Nevertheless, financial cost increased by approximately HK\$1.7 million due to increase in borrowings and an increase in overdue interests for the finance leases.

As a result, the impact of 20% decline in revenues was capable of being partially offset by the above measures. Notwithstanding the fact that the Group recorded a HK\$41 million net loss for the period under review, this nevertheless represented a de facto decrease of loss by HK\$9 million as compared to the same period last year.

Financial Resources

On 30 April 2005, the Group issued HK\$50 million convertible notes to Strategic Media International Limited ("SMIL") under a subscription agreement dated 3 February 2005. The convertible notes bear interest at the rate of 1.5 % per annum on the principal amount and is convertible into the ordinary shares of the Company at HK\$0.05 per share.

The proceeds from the issue of the convertible notes have been used to repay the outstanding advances and accrued interests of approximately HK\$45 million, which are due on 30 April 2005, to SMIL, in accordance with the terms of the subscription agreement and the balance of the proceeds representing a net cash of approximately HK\$5 million was put at the disposal of the Group.

During the period under review, SMIL has further provided approximately HK\$27 million advances as working capital for the Group, which was used mainly as operating expenses of Sing Pao Daily News.

Newspaper — Sing Pao Daily News ("SPDN")

The publication of SPDN has been the Group's main source of revenue that contributed approximately HK\$45 million to the Group's total turnover for the six months ended 30 September 2005.

In the past six months, SPDN organized a wide range of promotional activities in order to attract the attention of readers.

On 25 May 2005, SPDN Appreciation Meeting was held for the first time in Shenzhen to furnish further information and analyze the advertising effectiveness of SPDN to local advertisers. This was designed to help bring SPDN closer to its clients, and to ensure that SPDN could better serve them.

SPDN has entered into an agreement with The Hong Kong Jockey Club ("HKJC") becoming its official media partner. During the 2005/06 horseracing season, SPDN was granted an exclusive right to distribute its horse racing section at all of HKJC off-course betting centres. This is an excellent opportunity for SPDN to increase its exposure and an effective way to improve the advertising revenue of the newspaper.

Sing Pao Horse Racing Fans Club has organized a great number of events during the past four years. The annual Masters' Preferences Competition and its presentation ceremony was Event of the Year. In addition, interested SPDN readers were invited to a free racecourse visit on 4 September 2005.

Since the first quarter of this year, SPDN has also teamed up with Shell Oil Company to launch a promotional edition at all Shell gasoline retail stations. The contents of the promotional edition include special feature stories, entertainment news and articles featuring automobile industry and latest car models. Again, the exposure at gasoline stations made it possible for SPDN to target specific readers whose profile would in turn appeal to advertisers of automobile products and car dealers.

SPDN will continue to work closely with Education and Manpower Bureau ("EMB") in organizing more education based talks in a bid to help the disorientated students and their parents. One such lecture was held earlier this year focusing mainly on the impact of the reforms to the existing education system. The talk has been able to address a great many aspects of the educational reforms which featured essentially a schooling timeframe from secondary to university of "3-year preliminary secondary; 3-year higher secondary and 4-year undergraduate".

Another talk was jointly organized by SPDN and EMB after the release of HKCEE results in an effort to offer guidance and options to the secondary graduate for their career planning.

Following the success of the first two workshops of the Students Page Scheme ("SPS"), SPDN gained the support of EMB and HKU SPACE Community College in the third workshop of the Scheme. A total of 19 secondary schools applied to join the workshop, among them, 16 participated in the programme for the first time. Students who took part in the workshop would have the opportunity to learn interviewing skills and to better prepare themselves in the course of publishing of the SPS. Reporters, news photographers, editors, art designers and the chief editor of the SPS seconded from SPDN volunteered in the workshop. In addition, the lecturers from HKU SPACE Community College made available their expertise and professional advice to the students.

The Ocean Park Halloween Bash was a popular event embraced by people from all walks of life in Hong Kong as well as tourists over the past years. During the Halloween Bash 2005, a free trial night for VIP members was held on 28 September, and one hundred lucky readers of SPDN were offered a free visit to experience the five popular horrifying spots at the party. SPDN received enthusiastic response and over 2,000 readers applied to join the event. Successful readers also got the chance to preview the Halloween Bash after the opening ceremony. Readers' recognition could certainly help promote SPDN reader loyalty.

Books — Sing Pao Publishing Limited ("SPP")

The turnout at Sing Pao booth in the annual Hong Kong Book Fair was impressive. The fair was highlighted, among others, by the presence of the writer, Mr. Wai Kee Shun and the offering of free health check-ups. Most titles published by SPP are among the best sellers in Hong Kong.

NUMBER OF EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2005, the Group has 357 (2004: 434) employees. Employees' remuneration packages are reviewed and determined by reference to the market pay and individual performance.

PROSPECTS

To improve its business performance, the Group will undertake the following strategic moves:

- (i) In October 2005, SPDN has entered into a collaboration agreement with Today Daily News, a Chinese-language newspaper group in Canada. Pursuant to the agreement, SPDN and Today Daily News will have access to each other's news materials and publication contents, keeping Hong Kong emigrants in Canada posted of the latest social, economic and political developments in Hong Kong. Furthermore, Today Daily News will act as the sole agent of SPP to promote books sales in North America.
- (ii) Preliminary agreement has been reached during the period under review for the granting of a license of SPDN archive materials to one of the eight universities in Hong Kong.
- (iii) To further develop this growing books publishing business through the operation of SPP.
- (iv) SPDN has commenced the negotiations with one of the most prominent cinema chain in Hong Kong for the launch of a special movie edition at the cinema chain's movie houses, and an agreement is expected to be entered shortly.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2005, the interest and short positions of the Directors and chief executives of the Company and their respective associates in the shares (the "Shares"), underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

Associated Corporation — SMI Corporation Limited

Share option

Name of Director	Date of grant	Exercise period	Exercise price per Share HK\$	Number of share options outstanding as at 30 September 2005
XING Jing	28.7.2003	28.1.2004–27.1.2007	0.033	43,000,000

Save as disclosed above, as at 30 September 2005, none of the Directors and chief executives of the Company and their respective associates has any interests and short positions in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules.

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

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2005, the following persons (other than the Directors and chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of shareholders	Capacity	No. of Shares 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%
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.

3. Mr. JIAO Eri, SINA Corporation and Mr. PENG Chi Hui are independent third parties (as defined in the GEM Listing Rules).

Save as disclosed above, as at 30 September 2005, the Directors are not aware of any other person (other than the Directors and chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

SHARE OPTION SCHEME

Pursuant to the Share Option Scheme (the "Option Scheme") adopted and approved at the extraordinary general meeting of the Company held on 15 January 2002, the Company has granted share options to the eligible persons including the Directors, executives and employees of the Group and the contracted celebrity, the movement of which during the six months ended 30 September 2005 is as follows:

	Date of grant	Exercisable period	Exercise price per share (HK\$)	Number of share options		
				Balance as at 31.3.2005	Lapsed upon resignation	Balance as at 30.9.2005
<i>Category 1:</i>						
Director						
LIN Ning	13.8.2003	13.8.2003–12.8.2013	0.395	6,434,400	6,434,400	—
Sub-total				6,434,400	6,434,400	—
<i>Category 2:</i>						
Employees						
	13.8.2003	13.8.2003–12.8.2013	0.395	16,086,000	6,434,400	9,651,600
Total				22,520,400	12,868,800	9,651,600

During the six months ended 30 September 2005, no share option has been granted and exercised pursuant to the Option Scheme.

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 PRACTICE AND PROCEDURE

The Company had complied with the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules concerning board practices and procedures throughout the six months ended 30 September 2005.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors, namely, Mr. SHI Bin Hai, Mr. YAN Chun and Mr. CHAN Ngai Sang, Kenny, who had been appointed as members of the Audit Committee of the Company on 6 April 2004, 29 September 2004 and 7 July 2005, respectively.

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

The Audit Committee has already reviewed the Group's half-year results for the six months ended 30 September 2005.

REMUNERATION COMMITTEE

The Remuneration Committee was established on 27 July 2005 with specific terms of reference as in compliance with "Appendix 15: Code on Corporate Governance Practices" to the GEM Listing Rules. The Remuneration Committee comprises three members, one of which is executive Director, namely, Mr. XING Jing, and two are independent non-executive Directors, namely, Mr. SHI Bin Hai and Mr. CHAN Ngai Sang, Kenny. Following its establishment, the Remuneration Committee has been drafting working plans under its working rules, and will review and make recommendations to the Board on the remuneration system of the Company.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2005.

By Order of the Board
SMI Publishing Group Limited
XING Jing
Chairman and Executive Director

Hong Kong, 11 November 2005