



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)



Interim Report  
2006

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

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*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: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## HALF YEAR RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

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 2006, together with the comparative unaudited figures for the corresponding periods in 2005 are as follows:

**UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT**  
*For the three months and six months ended 30 September 2006*

	Notes	Three months ended 30 September		Six months ended 30 September	
		2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Turnover	2	16,525	21,421	33,512	44,806
Cost of sales		(25,211)	(32,141)	(50,749)	(65,632)
Gross loss		(8,686)	(10,720)	(17,237)	(20,826)
Other operating income		497	1,102	802	1,740
Advertising and promotion expenses	4	(400)	(874)	(789)	(1,441)
Administrative expenses		(7,426)	(7,819)	(15,014)	(15,818)
Unrealised gain (loss) on investments in securities		—	183	—	(200)
Loss from operations	5	(16,015)	(18,128)	(32,238)	(36,545)
Finance costs	6	(2,308)	(1,923)	(4,545)	(3,982)
Share of results of associates		(326)	(242)	(326)	(450)
Loss before taxation		(18,649)	(20,293)	(37,109)	(40,977)
Taxation	7	—	—	—	—
Loss for the period		(18,649)	(20,293)	(37,109)	(40,977)
Attributable to:					
Equity holders of the Company		(18,649)	(20,293)	(37,109)	(40,977)
Minority interests		—	—	—	—
Net loss for the period		(18,649)	(20,293)	(37,109)	(40,977)
Loss per share — basic (HK\$)	8	(0.019)	(0.020)	(0.037)	(0.041)

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET  
As at 30 September 2006

	Notes	As at 30 September 2006 (Unaudited) HK\$'000	As at 31 March 2006 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	26,521	36,157
Lease premium for land		123	123
Interest in an associate		391	717
Available-for-sale investments		1,433	1,433
		28,468	38,430
<b>CURRENT ASSETS</b>			
Inventories		1,947	1,593
Trade and other receivables	10	9,099	8,960
Bank balances and cash		1,614	910
		12,660	11,463
<b>CURRENT LIABILITIES</b>			
Trade and other payables	11	39,008	39,576
Obligations under finance leases — due within one year		220	443
		39,228	40,019
<b>NET CURRENT LIABILITIES</b>		<b>(26,568)</b>	<b>(28,556)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,900</b>	<b>9,874</b>

	Notes	As at 30 September 2006 (Unaudited) HK\$'000	As at 31 March 2006 (Audited) HK\$'000
<b>NON-CURRENT LIABILITIES</b>			
Obligations under finance leases — due after one year		—	38
Advances from a substantial shareholder/related company		74,350	47,506
Long-term loans from related companies		6,570	6,353
Other loans		64,100	61,988
Convertible notes		37,541	37,541
Deferred Tax		2,100	2,100
		184,661	155,526
		(182,761)	(145,652)
<b>CAPITAL AND RESERVES</b>			
Share capital	12	49,584	49,584
Reserves		(232,345)	(195,236)
		(182,761)	(145,652)

## UNAUDITED CONDENSED CONSOLIDATION STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2006

	Attributable to equity holders of the Company										
	Share capital	Convertible note equity reserve	Share Premium	Shareholders' contributions	Merger reserve	Exchange reserve	Distributable reserve	Fair value reserve	Accumulated losses	Minority Interest	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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)
At 1 April 2006 (Audited)	49,584	16,432	127,764	72,894	121,914	2,347	231,340	(133)	(767,794)	–	(145,652)
Net loss of the period	–	–	–	–	–	–	–	–	(37,109)	–	(37,109)
At 30 September 2006	49,584	16,432	127,764	72,894	121,914	2,347	231,340	(133)	(804,903)	–	(182,761)

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT  
 For the six months ended 30 September 2006

	Six months ended 30 September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Net cash used in operations	(22,444)	(31,868)
Net cash used in investing activities	(1,284)	(144)
Net cash from financing activities	24,432	31,772
Net increase/(decrease) in cash and cash equivalents	704	(240)
Cash and cash equivalents at 1 April	910	2,025
Cash and cash equivalents at 30 September, representing bank balances and cash	1,614	1,785
Analysis of balances of cash and cash equivalents		
Cash and bank balances	1,614	1,785
	1,614	1,785

*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. They have been prepared under the historical cost convention, as modified for the revaluation of certain investments in securities.

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 2006. 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 30 September		Six months ended 30 September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Newspapers advertising income	6,269	7,582	11,081	16,477
Sales of newspapers	10,170	13,606	22,187	27,938
Sales of books	86	212	244	368
Sales of goods, net of discounts and allowances	—	21	—	23
	16,525	21,421	33,512	44,806

Included in newspapers and magazines advertising income is approximately HK\$Nil (2005: HK\$398,000) 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 2006

	Newspaper and books business (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Turnover	33,512	—	33,512
Segment result	(31,011)	(1,237)	(32,248)
Interest income			10
Loss from operations			(32,238)
Finance costs			(4,545)
Share of results of associates			(326)
Loss before taxation			(37,109)
Taxation			—
Loss for the period			(37,109)
<b>ASSETS</b>			
Segment assets	40,639	98	40,737
Interests in an associate			391
Consolidated total assets			41,128
<b>LIABILITIES</b>			
Segment liabilities	(34,718)	(4,290)	(39,008)
Unallocated corporate liabilities			(184,881)
Consolidated total liabilities			(223,889)
<b>OTHER INFORMATION</b>			
Capital expenditure — property, plant and equipment	1,284	—	1,284
Depreciation and amortisation	10,920	—	10,920
Unrealized loss on investments in securities	—	—	—

(ii) 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)
<b>ASSETS</b>			
Segment assets	59,886	2,327	62,213
Interests in an associate			1,090
Consolidated total assets			63,303
<b>LIABILITIES</b>			
Segment liabilities	(17,930)	(2,371)	(20,301)
Unallocated corporate liabilities			(140,905)
Consolidated total liabilities			(161,206)
<b>OTHER INFORMATION</b>			
Capital expenditure — property, plant and equipment	146	—	146
Depreciation and amortisation	9,763	63	9,826
Unrealized loss on investments in securities	—	450	450

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		Six months ended 30 September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Others expenses for advertising and promotion	400	874	789	1,441

#### 5. LOSS FROM OPERATIONS

	Three months ended 30 September		Six months ended 30 September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Loss from operations has been arrived at after charging (crediting):				
Depreciation and amortisation of property, plant and equipment	5,879	4,914	10,920	9,826
Cost of inventories charged as cost of sales	6,712	9,638	14,175	20,283
Interest income	—	(51)	10	(102)

## 6. FINANCE COSTS

	Three months ended 30 September		Six months ended 30 September	
	2006	2005	2006	2005
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Interest on:				
Other loans	1,102	875	2,154	1,592
Finance leases	5	397	13	1,233
Loans from related companies	1,196	457	2,368	833
Amount due to a shareholder	5	5	10	10
Convertible notes	—	189	—	314
	2,308	1,923	4,545	3,982

## 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 2006 is based on the respective unaudited consolidated loss attributable to equity holders of the Company of approximately HK\$18,649,000 and HK\$37,109,000 (2005: HK\$20,293,000 and HK\$40,977,000) and the weighted average number of 991,685,971 shares and 991,685,971 shares (2005: 991,685,971 shares and 991,685,971 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 since their exercise would result in a reduction in loss per share.

## 9. PROPERTY, PLANT AND EQUIPMENT

	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
<b>Cost</b>							
At 1 April 2006 (Audited)	111	1,528	102,544	2,699	10,404	927	118,213
Additions	—	234	—	412	538	100	1,284
<b>At 30 September 2006</b>	<b>111</b>	<b>1,762</b>	<b>102,544</b>	<b>3,111</b>	<b>10,942</b>	<b>1,027</b>	<b>119,497</b>
<b>Depreciation</b>							
At 1 April 2006 (Audited)	22	1,142	72,902	2,039	5,335	616	82,056
Provided for the period	2	366	8,577	502	1,296	177	10,920
<b>At 30 September 2006</b>	<b>24</b>	<b>1,508</b>	<b>81,479</b>	<b>2,541</b>	<b>6,631</b>	<b>793</b>	<b>92,976</b>
<b>Net Book Values</b>							
At 30 September 2006	87	254	21,065	570	4,311	234	26,521
At 31 March 2006 (Audited)	89	386	29,642	660	5,069	311	36,157

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

At 30 September 2006, included in property, plant and equipment are assets under finance leases with net book values of approximately HK\$130,000 (2005: HK\$2,553,000).

## 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 2006 <i>(Unaudited)</i> HK\$'000	As at 31 March 2006 <i>(Audited)</i> HK\$'000
Zero to 30 days	3,326	4,779
31–90 days	2,156	511
Over 90 days	2,186	999
Trade receivables	7,668	6,289
Other receivables	1,431	2,671
	9,099	8,960

## 11. TRADE AND OTHER PAYABLES

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

	As at 30 September 2006 <i>(Unaudited)</i> HK\$'000	As at 31 March 2006 <i>(Audited)</i> HK\$'000
Zero to 30 days	3,040	3,195
31–90 days	3,560	4,311
Over 90 days	6,208	4,339
Trade payables	12,808	11,845
Other payables	26,200	27,731
	39,008	39,576

## 12. SHARE CAPITAL

	No. of shares	Amount <i>HK\$'000</i>
<hr/>		
Authorised:		
At 1 April 2006 and 30 September 2006, ordinary shares of HK\$0.05 each	4,000,000,000	200,000
<hr/>		
Issued and fully paid:		
At 1 April 2006 and 30 September 2006, ordinary shares of HK\$0.05 each	991,685,971	49,584
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## INTERIM DIVIDEND

The Board resolved that no interim dividend was declared for the six months ended 30 September 2006 (2005: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

For the six months ended 30 September 2006, the Group recorded a turnover of approximately HK\$33,512,000, representing a decline of 25% as compared with approximately HK\$44,806,000 of the same period last year. The decrease was mainly attributable to decrease in revenue generated from advertising income and sales of newspapers.

The loss attributable to equity holders of the Company for the six months ended 30 September 2006 was approximately HK\$37,109,000, representing a decrease by 9% as compared with approximately HK\$40,977,000 of the same period last year.

For the period under review, the reason of decrease in turnover due to fierce market competition by free newspaper launched to the market.

The cost cutting program in response to the fierce competition of local printed media, combined with very strict cost controls, has lowered administrative expenses by approximately HK\$804,000, representing a decline of 5% as compared to the same period of last year.

The finance cost has increased by 14% compared to the same period of last year due to increase in shareholder's loan which mainly finance the operating expenses of Sing Pao Daily News ("SPDN").

### Financial Resources

During the period under review, the shareholder's loan from Strategic Media International Limited ("SMIL") was further increased by HK\$26,844,000 as the general working capital for the Group, mainly used for the operating expenses for SPDN.

As at 30 September 2006, the total outstanding shareholder's loans due to SMIL was amounted to HK\$74,350,000.



## NUMBER OF EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2006, the Group has 342 (2005: 357) employees. Employees' remuneration packages are reviewed and determined by reference to the market pay and individual performance.

## PROSPECTS

The Group will carry out the following strategic actions to improve the Group's business development:

- 1) By the end of 2006, SPDN reached an agreement with Beijing Gong Shang Shi Bao (北京工商時報) and Shanghai Qiao Bao (上海僑報) in China to form alliance and cooperation team. SPDN also obtained the approval from the State Council of the PRC for the rights to distribute our newspapers at certain airlines and hotels in China. All these accomplishments will greatly help SPDN to get into the China market and to seek opportunities in the huge advertising market in China. The formation of alliance will also help to provide in a timely manner more information on the economy, development and trends in China to the readers in Hong Kong. This can raise SPDN's competitiveness in the market. Making good use of the interactive strength, SPDN will present an unique style and image to increase the income from advertising business.
- 2) In January 2007, SPDN underwent a strategic restructuring and employed new management methods to streamline the operation and costs control.
- 3) To cope with the market needs, we made a publication on Hong Kong genuine products to help the visitors from China to avoid from traps when shopping in Hong Kong. This publication received a very good response, other than receiving a lot of useful information and support from the Government authorities, visitors also opined that this publication helped them a lot. With the increase in distribution volume of this publication, which also increased the advertising income.

- 4) Upon we can maintain stable income growth from various sources, SPDN will put in more resources, recruit more high calibre personnels and improve the content of all pages of the newspaper. We will also publish free daily special edition to be distributed with the newspaper covering trends, information technology, health, economy and real estates, etc, and optimistic to have remarkable growth in sales volume in the near future.
- 5) Strengthen the operation of SPDN and to further develop and grow the business as a whole.

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

As at 30 September 2006, 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 Securities and Futures Ordinance ("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 required 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 or any other corporate.

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

As at 30 September 2006, 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	Long position/ Short position	No. of Shares/ underlying Shares held	Approximate percentage of shareholding
QIN Hui	Held by controlled corporation	Long position	261,473,945 (Note 1)	26.37%
	Held by controlled corporation	Long position	1,000,000,000 (Note 2)	100.84%
Strategic Media International Limited	Beneficial owner	Long position	261,473,945 (Note 1)	26.37%
	Beneficial owner	Long position	1,000,000,000 (Note 2)	100.84%
LAM Ka Chung William	Held by controlled corporation	Long position	71,873,415 (Note 3)	7.25%
LAM Wong Yuk Sin Mary	Held by controlled corporation	Long position	71,873,415 (Note 3)	7.25%
CHOI Koon Shum Jonathan	Held by controlled corporation	Long position	71,873,415 (Note 3)	7.25%
KWAN Wing Kum Janice	Held by spouse	Long position	71,873,415 (Note 3)	7.25%
Kingsway International Holdings Limited	Held by controlled corporation	Long position	71,873,415 (Note 3)	7.25%
Innovation Assets Limited	Held by controlled corporation	Long position	71,873,415 (Note 3)	7.25%

Name of shareholders	Capacity	Long position/ Short position	No. of Shares/ underlying Shares held	Approximate percentage of shareholding
World Developments Limited	Held by controlled corporation	Long position	71,873,415 <i>(Note 3)</i>	7.25%
SW Kingsway Capital Holdings Limited	Held by controlled corporation	Long position	71,873,415 <i>(Note 3)</i>	7.25%
Kingsway China Holdings Limited	Held by controlled corporation	Long position	71,873,415 <i>(Note 3)</i>	7.25%
Festival Developments Limited	Held by controlled corporation	Long position	71,873,415 <i>(Note 3)</i>	7.25%
Kingsway Lion Spur Technology Limited	Beneficial owner	Long position	71,873,415 <i>(Note 3)</i>	7.25%
JIAO Erli	Beneficial owner	Long position	93,000,000 <i>(Note 4)</i>	9.38%
SINA Corporation	Beneficial owner	Long position	51,769,817 <i>(Note 4)</i>	5.22%
PENG Chi Hui	Beneficial owner	Long position	50,000,000 <i>(Note 4)</i>	5.04%

*Notes:*

1. Strategic Media International Limited is wholly owned by Mr. QIN Hui.
2. These 1,000,000,000 underlying Shares are derived from the 1.5% HK\$50,000,000 convertible note issued by the Company to Strategic Media International Limited on 30 April 2005 for a term of 2 years convertible into Shares at the conversion price of HK\$0.05 per Share.
3. 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.

4. Mr. JIAO Erli, 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 2006, 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 2006 is as follows:

	Date of grant	Exercisable period	Exercise price per share (HK\$)	Number of share options		
				Balance as at 1.4.2006	Lapsed upon resignation	Balance as at 30.9.2006
Employees	13.8.2003	13.8.2003 – 12.8.2013	0.395	9,651,600	6,434,400	3,217,200
Total				9,651,600	6,434,400	3,217,200

During the six months ended 30 September 2006, no share option has been granted or 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.

## CODE ON CORPORATE GOVERNANCE PRACTICES

During the period ended 30 September 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, 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 the Chairman and 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 then 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 was passed at the annual general meeting of the Company held on 22 January 2007 whereby the Articles was amended so that all Directors 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 be 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. There was insufficient number of members of the Remuneration Committee.	B.1.1	The Company has appointed Mr. Wang Fei as a member to the Remuneration Committee on 15 May 2007, and the Company has sufficient number of members since then.



Deviation from the CG Code	Relevant CG Code provisions	Remedial steps to be/has been taken to comply with the CG Code
7. 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 period ended 30 September 2006.

#### CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 September 2006, the Company had complied with the code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard of dealings and its code of conduct regarding securities transactions by Directors.

#### AUDIT COMMITTEE

The Audit Committee comprises four independent non-executive Directors, namely, Mr. SHI Bin Hai, Mr. YAN Chun, Mr. JIANG Jin Sheng and Mr. KONG Tze Wing.

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 2006.

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 2006.

By Order of the Board  
SMI Publishing Group Limited  
QIN Hong  
*Chairman*

Hong Kong, 15 May 2007