

# SMI Publishing Group Limited

# 2010 Interim Report



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

(Incorporated in the Cayman Islands with limited liability)  
(於開曼群島註冊成立之有限公司)

Stock Code 股份代號: 8010



## **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 and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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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 2010

The board of directors of the Company (the "Board") announces the unaudited consolidated financial results of the Company and its subsidiaries (together the "Group") for the three months and six months ended 30 September 2010, together with the comparative unaudited figures for the corresponding periods in 2009. These interim consolidated accounts have not been audited but have been reviewed by the Company's Audit Committee.

### UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the three months and six months ended 30 September 2010*

	Notes	Three months ended 30 September		Six months ended 30 September	
		2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Turnover	4	8,646	8,325	17,169	17,098
Cost of sales		(14,567)	(14,306)	(27,868)	(27,212)
Gross loss		(5,921)	(5,981)	(10,699)	(10,114)
Other revenue and other net gains		176	160	355	1,209
Distribution costs		(193)	(1,505)	(457)	(6,689)
Administrative and other operating expenses		(8,282)	(6,220)	(12,897)	(10,738)
Loss from operations	5	(14,220)	(13,546)	(23,698)	(26,332)
Finance costs	6	(5,519)	(6,609)	(9,587)	(11,146)
Loss before income tax		(19,739)	(20,155)	(33,285)	(37,478)
Income tax	7	–	571	9	1,049
Loss for the period		(19,739)	(19,584)	(33,276)	(36,429)
Loss for the period and total comprehensive income attributable to owners of the Company		(19,739)	(19,584)	(33,276)	(36,429)
Dividend	13	–	–	–	–
Loss per share	8	(1.00)	(1.97)	(1.69)	(3.67)
– basic and diluted (HK cents)					

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2010

	Notes	As at 30 September 2010 (Unaudited) HK\$'000	As at 31 March 2010 (Audited) HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current Assets</b>			
Property, plant and equipment		2,777	3,162
Leasehold land		112	112
		<b>2,889</b>	<b>3,274</b>
<b>Current Assets</b>			
Trade and other receivables	9	16,168	8,623
Cash and cash equivalents		867	5,627
		<b>17,035</b>	<b>14,250</b>
<b>Current Liabilities</b>			
Borrowings	11	(81,034)	(71,736)
Convertible note		–	(1,914)
Trade and other payables	10	(24,330)	(22,098)
Tax payable		(12,090)	(12,090)
		<b>(117,454)</b>	<b>(107,838)</b>
<b>Net Current Liabilities</b>		<b>(100,419)</b>	<b>(93,588)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<b>(97,530)</b>	<b>(90,314)</b>
<b>Non-current Liabilities</b>			
Borrowings	11	(321,164)	(296,095)
Deferred tax liabilities		–	(9)
		<b>(321,164)</b>	<b>(296,104)</b>
<b>NET LIABILITIES</b>		<b>(418,694)</b>	<b>(386,418)</b>
<b>CAPITAL AND RESERVES</b>			
Share capital	12	98,584	97,584
Reserves		(517,278)	(484,002)
<b>DEFICIENCY IN CAPITAL</b>		<b>(418,694)</b>	<b>(386,418)</b>

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2010

	Attributable to owners of the Company							Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Convertible note equity HK\$'000	Shareholders' contributions HK\$'000	Exchange reserve HK\$'000	Distribution reserve HK\$'000	Accumulated losses HK\$'000	
At 1 April 2009 (Audited)	49,584	127,764	18,520	72,894	43	231,340	(865,850)	(365,705)
Total comprehensive income for the period (Unaudited)	-	-	-	-	-	-	(36,429)	(36,429)
At 30 September 2009 (Unaudited)	49,584	127,764	18,520	72,894	43	231,340	(902,279)	(402,134)
At 1 April 2010 (Audited)	97,584	140,573	741	72,894	43	231,340	(929,593)	(386,418)
Total comprehensive income for the period (Unaudited)	-	-	-	-	-	-	(33,276)	(33,276)
Conversion of convertible note (Unaudited)	1,000	371	(371)	-	-	-	-	1,000
Adjustment for expiration of convertible note (Unaudited)	-	-	(370)	-	-	-	370	-
At 30 September 2010 (Unaudited)	98,584	140,944	-	72,894	43	231,340	(962,499)	(418,694)

## UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2010

	Six months ended	
	30 September	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash used in operations	<b>(29,611)</b>	(34,829)
Net cash used in investing activities	<b>(16)</b>	(1,722)
Net cash generated from financing activities	<b>24,867</b>	38,860
Net (decrease)/increase in cash and cash equivalents	<b>(4,760)</b>	2,309
Cash and cash equivalents at 1 April	<b>5,627</b>	235
Cash and cash equivalents at 30 September	<b>867</b>	2,544
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	<b>867</b>	2,544

## ACCOUNTING POLICIES AND EXPLANATORY NOTES

### 1. Basis of presentation and principal accounting policies

The unaudited condensed consolidated interim financial statements of the Company have been prepared in accordance with the applicable disclosure requirements of the GEM Listing Rules and the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The condensed consolidated interim financial statements should be read in conjunction with the 2010 audited financial statements of the Company. The accounting policies and basis of preparation used in the preparation of these condensed consolidated interim financial statements are consistent with those applied in the Company’s audited financial statements for the year ended 31 March 2010. The condensed consolidated financial statements have been prepared on the historical cost basis.

### 2. Basis of preparation – material uncertainties relating to the going concern basis

The Group sustained an unaudited consolidated loss attributable to owners of the Company of approximately HK\$33,276,000 for the six months ended 30 September 2010 (six months ended 30 September 2009: loss of approximately HK\$36,429,000).

During the current and prior corresponding periods, the Group experienced financial difficulties, especially, in the past periods, the Group was unable to meet the payment obligations and various parties took legal actions against the Group to recover amounts due to them.

In view of the liquidity problems faced by the Group, the Directors planned to adopt the following proposed measures with the view to improve the Group’s financial and cash flow position and to maintain the Group’s existence on a going concern basis:

- (a) the Directors plan to seek financial support from Billion Wealth Group Limited (“Billion Wealth”), a substantial shareholder of the Company, and other potential investors to provide adequate funds for the Group to meet its liabilities as they fall due, both present and future;
- (b) the Directors have identified and have been negotiating with potential investors for proposed capital injection arrangements; and
- (c) the Directors have adopted various cost control measures to reduce general administrative expenses and operating costs.

In the opinion of the Directors, upon successful implementation of these measures, the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements. Accordingly, the Directors are of the view that it is appropriate to prepare the financial statements on a going concern basis.

Should the Group be unable to achieve the above and fail to continue in business as a going concern, adjustments would have to be made to restate the values of the assets to their immediate recoverable amounts, to provide for any further liabilities, which might arise, and to reclassify non-current assets and liabilities as current assets and liabilities respectively. The effects of these adjustments have not been reflected in the financial statements.

### **3. Significant accounting policies**

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 April 2010. HKFRSs comprise Hong Kong Financial Reporting Standards, HKAS and Interpretations. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current period and prior years.

The Group has not applied those new and revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of those new and revised HKFRSs but is not yet in a position to state whether those new and revised HKFRSs would have a material impact on its results of operations and financial position.

### **4. Segment information and turnover**

The Group determines its operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions.

The Group operates one business segment, which is the publication of newspaper, magazines and books and therefore, no further business segment analysis is presented.

All operating assets and operations of the Group during the periods ended 30 September 2010 and 2009 were substantially located and carried out in Hong Kong.



Turnover represents gross proceeds received and receivable derived from the publication of newspapers, magazines, books and advertisement income arising from the publications and is summarized as follows:

	Three months ended 30 September		Six months ended 30 September	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Publication of newspapers, magazines and books	<b>8,646</b>	8,325	<b>17,169</b>	17,098

## 5. Loss from operations

Loss from operations is arrived at after charging:

	Three months ended 30 September		Six months ended 30 September	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Minimum lease payments under operating leases	<b>3,305</b>	1,574	<b>4,212</b>	2,729
Employee benefit expenses (including directors' emoluments)				
– salaries, wages and other benefit	<b>7,637</b>	8,614	<b>15,349</b>	16,339
– contributions to defined contribution retirement scheme	<b>331</b>	331	<b>603</b>	635
Depreciation and amortisation of property, plant and equipment	<b>200</b>	368	<b>401</b>	683

## 6. Finance costs

	Three months ended 30 September		Six months ended 30 September	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Interest on bank borrowings wholly repayable within five years	-	1	-	1
Imputed interest expense on interest-free borrowings wholly repayable within five years	2,000	-	2,600	-
Interest on other borrowings wholly repayable within five years	2,785	2,415	5,442	4,692
Interest on other borrowings wholly repayable after five years	734	734	1,459	1,459
Effective interest expense on convertible note	-	3,459	86	4,994
	<b>5,519</b>	<b>6,609</b>	<b>9,587</b>	<b>11,146</b>

## 7. Income tax

Income tax credit in the consolidated income statement represents:

	Three months ended 30 September		Six months ended 30 September	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Deferred tax:				
Current period	-	(571)	(9)	(1,049)

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. The Group had no estimated assessable profits in other jurisdictions for both periods.

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

## 8. Loss per share

### *Basic*

Basic loss per share is calculated by dividing the loss attributable to owners of the Company by weighted average number of ordinary shares in issue during the period:

	Three months ended 30 September		Six months ended 30 September	
	2010 (Unaudited)	2009 (Unaudited)	2010 (Unaudited)	2009 (Unaudited)
Loss attributable to owners of the Company (HK\$'000)	<u>(19,739)</u>	<u>(19,584)</u>	<u>(33,276)</u>	<u>(36,429)</u>
Weighted average number of ordinary shares in issue	<u>1,971,685,971</u>	<u>991,685,971</u>	<u>1,968,625,971</u>	<u>991,685,971</u>
Basic loss per share (HK cents)	<u>(1.00)</u>	<u>(1.97)</u>	<u>(1.69)</u>	<u>(3.67)</u>

### *Diluted*

Diluted loss per share for the current and prior corresponding periods is the same as the basic loss per share as the potential ordinary shares outstanding during both periods had an anti-dilutive effect on the basic loss per share for the current and corresponding prior periods.

## 9. Trade and other receivables

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

	<b>As at 30 September 2010 (Unaudited) HK\$'000</b>	As at 31 March 2010 (Audited) HK\$'000
Neither past due nor impaired	<b>1,362</b>	1,294
0 – 30 days	<b>1,255</b>	643
31 – 90 days	<b>927</b>	907
Over 90 days	<b>1,610</b>	1,166
	<b>3,792</b>	2,716
Trade receivables	<b>5,154</b>	4,010
Deposits, prepayments and other receivables	<b>11,014</b>	4,613
	<b>16,168</b>	8,623

## 10. Trade and other payables

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

	<b>As at 30 September 2010 (Unaudited) HK\$'000</b>	As at 31 March 2010 (Audited) HK\$'000
0 – 30 days	<b>1,745</b>	1,582
31 – 90 days	<b>20</b>	358
Over 90 days	<b>5,344</b>	5,698
	<b>7,109</b>	7,638
Trade payables	<b>17,221</b>	14,460
Other payables	<b>24,330</b>	22,098

## 11. Borrowings

	<b>As at 30 September 2010 (Unaudited) HK\$'000</b>	As at 31 March 2010 (Audited) HK\$'000
Loans from a shareholder, unsecured (Note (i))	<b>294,882</b>	909
Loans from related companies, unsecured (Note (ii))	<b>3,402</b>	6,266
Loans from third parties, unsecured	<b>103,914</b>	360,656
	<b>402,198</b>	367,831
Analysed as:		
Current	<b>81,034</b>	71,736
Non-current	<b>321,164</b>	296,095
	<b>402,198</b>	367,831

### Notes:

- (i) The amount at 31 March 2010 represented loans granted by Strategic Media International Limited ("SMIL"), SMIL had been a substantial shareholder of the Company up to 11 May 2010. On 12 May 2010, the shares originally held by SMIL was taken over by Billion Wealth by the execution of a share charge, pursuant to a share charge agreement dated 23 April 2008 entered between Billion Wealth and SMIL in relation with the loan facilities of HK\$60,000,000 granted by Billion Wealth to the Company. As a result, Billion Wealth has become a substantial shareholder of the Company with effect from 12 May 2010. Billion Wealth is wholly and beneficially owned by Mr. Yeung Ka Sing, Carson ("Mr. Yeung"). The amount at 30 September 2010 represented total amounts of loans and interests accrued thereon due to Billion Wealth carried forward as at 11 May 2010 and additional loan interest and advances from Billion Wealth up to 30 September 2010 from 12 May 2010. The loan amount due to Billion Wealth is unsecured, bearing interest rates ranging from nil to 1% over the Hong Kong prime interest rate per annum. With the financial support from Billion Wealth, total amount due to Billion Wealth was classified as non-current as at 30 September 2010.

- (ii) The amount at 31 March 2010 represented loans granted by SMI Corporation Limited ("SMI Corporation"), a company substantially owned by SMIL. With effect from 12 May 2010, SMIL has been no longer the substantial shareholder of the Company (as mentioned in Note (i) above). The amount at 30 September 2010 represented total loans and interests accrued thereon due to Birmingham International Holdings Limited ("Birmingham") which were carried forward as at 11 May 2010 and additional loan interests accrued thereon for the period up to 30 September 2010 from 12 May 2010. The loan amount due to Birmingham is unsecured, bearing interest rate at 12% per annum and is repayable within one year. Birmingham is a company substantially owned by Mr. Yeung, and Mr. Yeung is a director of Birmingham.

## 12. Share capital

	At 30 September 2010 (Unaudited)		At 31 March 2010 (Audited)	
	Number of shares '000	Amount HK\$'000	Number of shares '000	Amount HK\$'000
<b>Authorised capital:</b>				
Ordinary shares of HK\$0.05 each				
At beginning of the period/year	4,000,000	200,000	4,000,000	200,000
Increase during the period/year (Note (i))	96,000,000	4,800,000	—	—
At end of the period/year	100,000,000	5,000,000	4,000,000	200,000
Convertible preference shares of HK\$0.05 each				
At beginning of the period/year	—	—	—	—
Increase during the period/year (Note(ii))	50,000,000	2,500,000	—	—
At end of the period/year	50,000,000	2,500,000	—	—
	150,000,000	7,500,000	4,000,000	200,000
<b>Issued and fully paid:</b>				
Ordinary shares of HK\$0.05 each				
At beginning of the period/year	1,951,686	97,584	991,686	49,584
Conversion of convertible note (Note (ii))	20,000	1,000	960,000	48,000
At end of the period/year	1,971,686	98,584	1,951,686	97,584

Notes:

- (i) Pursuant to an ordinary resolution passed by the shareholders at the annual general meeting of the Company on 30 June 2010, the authorised share capital of the Company has been increased from HK\$200,000,000 divided into 4,000,000,000 ordinary shares of HK\$0.05 each ("Ordinary Shares") to HK\$7,500,000,000 divided into 100,000,000,000 Ordinary Shares and 50,000,000,000 convertible preference shares of HK\$0.05 each ("Convertible Preference Shares") by the creation of 96,000,000,000 Ordinary Shares and 50,000,000,000 Convertible Preference Shares.
- (ii) On 29 April 2010, 20,000,000 Ordinary Shares of the Company were issued as a result of partial conversion of convertible note by certain note-holder.

### 13. Dividend

The Directors resolved that no interim dividend be declared for the six months ended 30 September 2010 (six months ended 30 September 2009: Nil).

### 14. Related party transactions

<b>Name of related parties</b>	<b>Relationship</b>
Billion Wealth	A substantial shareholder of the Company
Birmingham	Mr. Yeung, who has deemed substantial interest in the Company, is also a director of Birmingham
SMI Corporation	SMIL had been a common shareholder of SMI Corporation and the Company up to 11 May 2010
Star East Management Limited ("Star East Management")	Mr. Wang Fei had been a common director of Star East Management and the Company up to 3 September 2009. Mr. Wang Fei was removed from the directorship of the Company by the Board on 4 September 2009

In addition to the transactions disclosed elsewhere in the financial statements, the Group also entered into the following related party transactions during the period under review:

	<b>Six Months ended 30 September 2010 (Unaudited) HK\$'000</b>	2009 (Unaudited) HK\$'000
Advertising income from Birmingham	<b>68</b>	–
Interest expenses on other borrowings from Billion Wealth	<b>2,907</b>	–
Imputed interest expenses on interest-free borrowings from Billion Wealth	<b>2,600</b>	–
Interest expenses on borrowings from Birmingham	<b>140</b>	–
Interest expenses on borrowings from SMI Corporation	<b>25</b>	110
Interest expenses on borrowings from Star East Management	–	24

#### 15. Post balance sheet date events

On 9 November 2010, an additional loan facility of HK\$50,000,000 was granted from Billion Wealth to the Company for the Group's working capital requirements. Such loan facility is unsecured, interest-free and repayable on the date falling on the expiry of 24 months from the date on which the respective loan is made or any other later date as may be mutually agreed in writing by the Company and Billion Wealth.



## 16. Contingent liabilities

At 30 September 2010, there were several cases brought forward from prior periods related to defamation and infringement of copyright that remained unresolved. All of them were brought against Sing Pao Newspaper Company Limited ("SPNCL"), a wholly-owned subsidiary of the Group. Court judgments have not been stated and the amounts claimed were in aggregate totaling to approximately HK\$517,000. In the Directors' opinion, the liabilities are unlikely to crystallize and no provision had therefore been made in respect of these claims.

In July 2007, a licensee of SPNCL acts as the defendant in a legal claim in relation to an action for copyright infringement, issued a third party notice to SPNCL. The defendant claimed against SPNCL for indemnity against the plaintiff's claims and the cost of the action or contribution in respect of the plaintiff's claims. A defense was filed by the Group in March 2008 denying all allegations against the Group. Judgments have not been stated up to the date of this report. In the Directors' opinion, the liabilities are unlikely to crystallize and no provision had therefore been made in respect of the claim.

On 2 November 2010, Sing Pao Newspaper Assets Limited ("SPNAL"), a wholly-owned subsidiary of the Company, received the estimated assessments of profit tax for the years of assessment 2007/2008 and 2008/2009 from the Inland Revenue Department ("IRD"), demanding a total estimated profit tax of HK\$5,755,000 for these two years. In the opinion of the Directors, since SPNAL did not have any assessable profits or had tax losses carried forward during these two years, the liabilities are unlikely to crystallize and no provision had therefore been made in the condensed consolidated financial statements for the six months ended 30 September 2010. Objections will be filed to the IRD in respect of such profit tax demands before the deadline as specified by the IRD.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

For the six months ended 30 September 2010, the Group recorded a turnover of approximately HK\$17,169,000, representing a moderate increase of approximately 0.4% as compared with the turnover of approximately HK\$17,098,000 for the same period last year although the overall economy has been recovering from its downturn last year. This also reflects the fierce competition in the newspaper publication market, especially from the free-of-charge newspaper.

Loss attributable to the owners of the Company for the current period was approximately HK\$33,276,000, representing a decrease of approximately 8.7% as compared with the net loss of approximately HK\$36,429,000 for the same period last year.

The decrease in net loss of the Group was mainly due to the following reasons:

- (1) The Group has taken various cost control measures to lower its operating costs, these include the significant decrease in the expenditures incurred for its advertising and promotion programs by using other cost-efficient ways. Total distribution costs recorded a significant decrease of approximately HK\$6,232,000; and
- (2) The increase of approximately HK\$2,159,000 in administrative and other operating expenses was attributable to approximately HK\$1,500,000 for the legal and professional fee incurred for the Company's resumption of trading in its shares and approximately HK\$1,530,000 for the preliminary set-up cost of the Group's printing factory prior its normal production. After eliminating these two factors, the other administrative expenses recorded a decrease of approximately 8.1% as compared with the same period last year.

## Financial Resources and Liquidity

As at 30 September 2010, the Group did not maintain sufficient liquid funds and had net current liabilities of approximately HK\$100,419,000 (31 March 2010: approximately HK\$93,588,000). As at 30 September 2010, the Group's cash on hand amounted to approximately HK\$867,000 (31 March 2010: approximately HK\$5,627,000).

As at 30 September 2010, the Group's total borrowings amounted to approximately HK\$402,198,000 (31 March 2010: approximately HK\$369,745,000), among of which approximately HK\$81,034,000 (31 March 2010: approximately HK\$73,650,000) was payable within one year and approximately HK\$321,164,000 (31 March 2010: approximately HK\$296,095,000) payable after one year.

As at 30 September 2010, total loan facilities of HK\$110,000,000 granted by Billion Wealth, a substantial shareholder of the Company, was fully utilized by the Company. On 9 November 2010, an additional loan facility of HK\$50,000,000 was granted from Billion Wealth to the Company for the Group's working capital requirements. Such loan facility is unsecured, interest-free and repayable on the date falling on the expiry of 24 months from the date on which the respective loan is made or any other later date as may be mutually agreed in writing by the Company and Billion Wealth.

As at 30 September 2010, no assets of the Group were pledged for loan facilities granted to the Group.

## Capital Structure

As at 30 September 2010, the Company had a total of 1,971,685,971 ordinary shares in issue with par value of HK\$0.05 each. During the period under review, 20,000,000 new ordinary shares of the Company had been issued as a result of the conversion of principal value of HK\$1,000,000 of the convertible notes by certain note-holder at the conversion price of HK\$0.05 per share.

Pursuant to an ordinary resolution passed by the shareholders at the annual general meeting of the Company on 30 June 2010, the authorised share capital of the Company has been increased from HK\$200,000,000 divided into 4,000,000,000 ordinary shares of HK\$0.05 each to HK\$7,500,000,000 divided into 100,000,000,000 ordinary shares of HK\$0.05 each and 50,000,000,000 convertible preference shares of HK\$0.05 each by the creation of 96,000,000,000 ordinary shares and 50,000,000,000 convertible preference shares of the Company.

## **Number of Employees and Remuneration Policies**

As at 30 September 2010, the Group employed 166 (30 September 2009: 177) employees. Employees' remuneration packages are determined by reference to market rate and individual performance.

## **Business Review and Prospects**

The Group is re-establishing its printing factory. Up to the date of this report, decoration works have almost been completed and it is estimated that the factory will operate from the first quarter of calendar year 2011. The reasons for further delay is mainly due to the delays in the decoration schedule of the factory and extra times are needed for the delivery of certain important spare parts for upgrading of the printing machines. The management believes that with the operation of the Group's printing factory, the Group will not only cut down its printing costs, but also capture the opportunities arising from the increasing in circulations and demand for printing of free-of-charge newspapers by making use of the spare printing capacity of the factory. Moreover, the Group's well-equipped editorial team will certainly provide a full-range and value-added services over its counterparts in newspaper printing industry.

Apart from the continuous efforts to monitor the market development, restructure and streamline the business operations as and when necessary so as to improve the current financial status of the Group and enhance the business performance, the management of the Company is actively looking for business opportunities to expand the Group's businesses as well as widening the income streams of the Group's business operations.

## **DIRECTORS', SUBSTANTIAL SHAREHOLDERS' AND CHIEF EXECUTIVE'S INTERESTS AND POSITIONS IN SHARES AND UNDERLYING SHARES**

### **Directors' and Chief Executive's Interests and Positions in Shares and Underlying Shares**

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.

As at 30 September 2010, 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 Securities and Futures Ordinance ("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 of Hong Kong Limited 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 period under review 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.

### **Substantial Shareholders' Interests and Positions in Shares and Underlying Shares**

As at 30 September 2010, the persons or corporations (not being a Director or chief executive of the Company) who had interests or short positions (directly or indirectly) in the shares or underlying shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who are substantial shareholders as recorded in the register required to be kept under Section 336 of the SFO or have otherwise notified to the Company were as follows:

<b>Name of shareholders</b>	<b>Capacity</b>	<b>No. of shares of the Company held</b>	<b>Long (L)/ Short (S) position</b>	<b>Approximate percentage of shareholding</b>
Mr. Yeung	Held by controlled corporation	261,473,945 (Note)	(L)	13.26%
Billion Wealth	Beneficial owner	261,473,945 (Note)	(L)	13.26%

Note:

The 261,473,945 shares of the Company are held by Billion Wealth, a company incorporated in the British Virgin Islands with limited liability. The entire issued share capital of Billion Wealth is wholly and beneficially owned by Mr. Yeung. These 261,473,945 shares of the Company were originally held by SMIL. On 12 May 2010, all these 261,473,945 shares were taken over by Billion Wealth from SMIL by the execution of a share charge, pursuant to a share charge agreement dated 23 April 2008 entered between Billion Wealth and SMIL in relation with the loan facility of HK\$60,000,000 granted by Billion Wealth to the Company.

Save as disclosed above, as at 30 September 2010, 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 as recorded in the register required to be kept under Section 336 of the SFO.

## **EQUITY-SETTLED SHARE-BASED TRANSACTIONS**

On 15 January 2002, the Company adopted a share option scheme (the "Option Scheme"). The Board may at its discretion offer to any director (including non-executive director), executive, employee and contracted celebrity (the "Eligible Persons") of the Group options to subscribe for shares in the Company in accordance with the terms of the Option Scheme and Chapter 23 of the GEM Listing Rules. The principal purposes of the Option Scheme are to recognize 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 of the Company and such limit might be refreshed by the shareholders of the Company in general meetings. The Option Scheme commenced on 15 January 2002 and will end on the day immediately prior to the tenth anniversary of 15 January 2002. The share options vested immediately at the time when granted.

The Company had not granted any options under the Option Scheme during the six months ended 30 September 2010.

At 30 September 2010, the Company had no outstanding exercisable share option.

## **PURCHASE, SALE AND REDEMPTION OF 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 2010.

## **COMPETING INTERESTS**

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

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

During the six months ended 30 September 2010, the Company was in compliance with the code provisions as set out in Appendix 15: "The Code on Corporate Governance Practices" (the "CG Code") of the GEM Listing Rules, except for the following:

1. Due to practical reasons, 14 days' advanced notifications have not been given to all meetings of the Board. Reasons have been given in the notifications in respect of those meetings of the Board where it is not practical to give 14 days' advanced notification. The Board will use its best endeavors to give 14 days' advanced notifications of Board meeting to the extent practicable (Code Provisions A.1.3);
2. Non-executive Directors were not appointed for a specific term but were subject to retirement at the first general meeting after their appointment and thereafter to retirement by rotation at least once every three years and in accordance with the Articles of Association of the Company (Code Provision A.4.1); and
3. No nomination committee was established to review the structure, size and composition of the Board on a regular basis (Code Provision A.4.4).

Save as those mentioned above, in the opinion of the Directors, the Company has met with the code provisions as set out in the CG Code during the six months ended 30 September 2010.

## **REVIEW OF THE INTERIM REPORT**

The Company has established an audit committee (the “Audit Committee”) with written terms of reference. Currently, the Audit Committee comprises three independent non-executive Directors, namely Messrs. HUNG Yat Ming (as the chairman of the Audit Committee), KONG Tze Wing and PAN Chik.

The Group’s financial results and information therein for the six months ended 30 September 2010 have not been reviewed by the external auditor. Instead, the unaudited financial results for the six months ended 30 September 2010 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such financial results complied with the applicable accounting standards and requirements and adequate disclosures have been made.

## **SUSPENSION OF TRADING**

At the request of the Company, trading in the Company’s shares has been suspended from 11:04 a.m. on 28 April 2005 and will remain suspended until further notice.

By order of the Board  
**SMI Publishing Group Limited**  
**Ma Shui Cheong**  
*Managing Director*

Hong Kong, 9 November 2010