



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

(Incorporated in the Cayman Islands with limited liability)  
Stock Code : 8010

Third Quarterly Report 2011

## **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.**

**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.**

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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.*

### THIRD QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 31 DECEMBER 2011

The board of directors of the Company (the "Board") announces the unaudited condensed consolidated financial results of the Company and its subsidiaries (together the "Group") for the three months and nine months ended 31 December 2011, together with the comparative unaudited figures for the corresponding periods in 2010. These condensed 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 nine months ended 31 December 2011*

	Notes	Three months ended		Nine months ended	
		31 December		31 December	
		2011	2010	2011	2010
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	5	11,259	11,287	29,856	28,456
Cost of sales		(8,655)	(13,950)	(31,438)	(41,818)
Gross profit/(loss)		2,604	(2,663)	(1,582)	(13,362)
Other revenue and other gain		507	250	1,491	605
Distribution costs		(3)	(42)	(224)	(499)
Administrative and other operating expenses		(6,039)	(8,815)	(22,443)	(21,712)
Finance costs	7	(4,579)	(2,343)	(12,428)	(11,930)
Loss before income tax		(7,510)	(13,613)	(35,186)	(46,898)
Income tax	8	-	-	-	9
Loss for the period		(7,510)	(13,613)	(35,186)	(46,889)
Other Comprehensive income for the period		-	-	-	-
Total comprehensive income for the period		(7,510)	(13,613)	(35,186)	(46,889)
Loss for the period and total comprehensive income attributable to owners of the Company		(7,510)	(13,613)	(35,186)	(46,889)
Dividend	11	-	-	-	-
Loss per share	9				
- basic and diluted (HK cents)		(0.38)	(0.69)	(1.78)	(2.38)

## ACCOUNTING POLICIES AND EXPLANATORY NOTES

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

The unaudited condensed consolidated 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 financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended 31 March 2011 (“2011 Annual Report”). The accounting policies and basis of preparation used in the preparation of these condensed consolidated financial statements are consistent with those applied in the Company’s 2011 Annual Report. 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\$35,186,000 for the nine months ended 31 December 2011 (nine months ended 31 December 2010: loss of approximately HK\$46,889,000). These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group’s ability to continue as a going concern.

In the prior years, the Group were financially supported by Billion Wealth Group Limited (“Billion Wealth”). In July 2011, the shareholder of Billion Wealth reported that he may be unable to deal with the loans granted by Billion Wealth to the Group. In addition, he may also be unable to offer any new financial support to the Group. In order to address this situation, management has successfully obtained financial support from other new investor as outlined below.

In view of the liquidity problems faced by the Group, the Directors have adopted or plan to adopt the following measures in order to improve the Group’s financial and cash flow positions and to maintain the Group as a going concern:

- (a) a loan facility of HK\$100,000,000 was granted by a company owned by an executive director (the “Lender”). The loan facility granted is mainly for the Group’s working capital at present. The Directors plan to seek further financial support, when necessary, from the Lender to provide adequate funds for the Group to meet its liabilities as when they fall due in the future;
- (b) the Directors have identified and have been negotiating with the potential investor 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. The Directors are of the opinion that the above measures will be successfully implemented. 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 successfully implement the above measures and continue as a going concern, it may be unable to continue realising its assets and discharging its liabilities in the normal course of business. Adjustments would have to be made to restate the values of the assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and 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 2011. 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.

### 4. Application of new and revised Hong Kong Financial Reporting Standards

In the current period, the Group has applied, for the first time, the following new or revised standards and interpretations (the “new HKFRSs”) issued by the HKICPA, which are or have become effective for the financial year beginning on 1 April 2011:

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 except for the amendments to HKFRS 3 (as revised in 2008), HKFRS 7, HKAS 1 and HKAS 28
HKFRS 1	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKFRS 3	Business Combination (2008) – Improvements to HKFRSs (2010)
HKAS 1 (Amendments)	Presentation of Financial Statements – Improvements to HKFRSs (2010)
HKAS 24 (as revised in 2009)	Related Party Disclosures
HK (IFRIC) – Int 13 (Amendments)	Customer Loyalty Programmes – Improvements to HKFRSs (2010)
HK (IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK (IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

HKAS 24 Related Party Disclosures (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities. The disclosure exemptions introduced in HKAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity.

The amendments to HK (IFRIC) – Int 14 require entities to recognise as an economic benefit any prepayment of minimum funding requirement contributions. As the Group has no defined benefit scheme, the amendments are unlikely to have any financial impact on the Group. HK (IFRIC) – Int 19 clarifies that equity instruments issued to a creditor to extinguish a financial liability are “consideration paid” in accordance with paragraph 41 of HKAS 39. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability. The interpretation states that equity instruments issued in a debt for equity swap should be measured at the fair value of the equity instruments issued, if this can be determined reliably. If the fair value of the equity instruments issued is not reliably determinable, the equity instruments should be measured by reference to the fair value of the financial liability extinguished as of the date of extinguishment. Any difference between the carrying amount of the financial liability that is extinguished and the fair value of the equity instruments issued is recognised immediately in profit or loss.

Save as described above, there is no material effect on the unaudited condensed consolidated financial statements of the Group for the current or prior accounting periods by adopting the new HKFRSs. Thus no prior period adjustment has been required.

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective:

HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters <sup>1</sup>
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets <sup>1</sup>
HKFRS 9 (Revised)	Financial Instruments <sup>4</sup>
HKFRS 10	Consolidated Financial Statements <sup>4</sup>
HKFRS 11	Joint Arrangements <sup>4</sup>
HKFRS 12	Disclosures of Interests in Other Entities <sup>4</sup>
HKFRS 13	Fair Value Measurement <sup>4</sup>
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income <sup>3</sup>
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets <sup>2</sup>
HKAS 19 (as revised in 2011)	Employee Benefits <sup>4</sup>
HKAS 27 (as revised in 2011)	Separate Financial Statements <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2011.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2012.

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2012.

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2013.

## 5. Turnover

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

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

All operating assets and operations of the Group during the nine months ended 31 December 2011 and 2010 were substantially located and carried out in Hong Kong.

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

	Three months ended 31 December		Nine months ended 31 December	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Publication of newspapers and books	<b>11,259</b>	11,287	<b>29,856</b>	28,456

## 6. Loss before income tax

Loss before income tax is arrived at after charging:

	Three months ended 31 December		Nine months ended 31 December	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Minimum lease payments under operating leases	<b>1,733</b>	3,511	<b>5,010</b>	7,723
Impairment on other receivables	–	–	<b>4,185</b>	–
Employee benefit expenses (including directors' emoluments)				
– salaries, wages and other benefit	<b>4,785</b>	7,101	<b>17,405</b>	22,450
– contributions to defined contribution retirement scheme	<b>197</b>	297	<b>726</b>	900
Depreciation and amortisation of property, plant and equipments	<b>317</b>	201	<b>516</b>	602

## 7. Finance costs

	Three months ended		Nine months ended	
	31 December		31 December	
	2011	2010	2011	2010
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Imputed interest expense on interest-free borrowings wholly repayable within five years	1,358	(1,000)	2,227	1,600
Interest expenses on other borrowings wholly repayable:				
– within five years	2,488	2,610	8,009	8,052
– after five years	733	733	2,192	2,192
Effective interest expense on convertible note	–	–	–	86
	<b>4,579</b>	<b>2,343</b>	<b>12,428</b>	<b>11,930</b>

## 8. Income tax

Income tax credit in the consolidated statement of comprehensive income represents:

	Three months ended		Nine months ended	
	31 December		31 December	
	2011	2010	2011	2010
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Deferred tax:				
Current period	–	–	–	(9)

No provision for Hong Kong profits tax has been made in the condensed consolidated 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.

## 9. 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 periods:

	Three months ended 31 December		Nine months ended 31 December	
	2011 (Unaudited)	2010 (Unaudited)	2011 (Unaudited)	2010 (Unaudited)
Loss attributable to owners of the Company (HK\$'000)	<b>(7,510)</b>	(13,613)	<b>(35,186)</b>	(46,889)
Weighted average number of ordinary shares in issue	<b>1,971,685,971</b>	1,971,685,971	<b>1,971,685,971</b>	1,969,649,971
Basic loss per share (HK cents)	<b>(0.38)</b>	(0.69)	<b>(1.78)</b>	(2.38)

### *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.

## 10. Reserves

	Share premium HK\$'000	Convertible note equity reserve HK\$'000	Shareholder's contribution HK\$'000	Exchange reserve HK\$'000	Distributable reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2010 (Audited)	140,573	741	72,894	43	231,340	(929,593)	(484,002)
Total comprehensive income for the period (Unaudited)	-	-	-	-	-	(46,889)	(46,889)
Conversion of convertible note (Unaudited)	370	(370)	-	-	-	-	-
Adjustment for expiration of convertible note (Unaudited)	-	(371)	-	-	-	371	-
At 31 December 2010 (Unaudited)	<u>140,943</u>	<u>-</u>	<u>72,894</u>	<u>43</u>	<u>231,340</u>	<u>(976,111)</u>	<u>(530,891)</u>
At 1 April 2011 (Audited)	<b>140,943</b>	-	<b>80,744</b>	<b>43</b>	<b>231,340</b>	<b>(979,538)</b>	<b>(526,468)</b>
Capital portion of advance from a substantial shareholder (Unaudited)	-	-	260	-	-	-	260
Total comprehensive income for the period (Unaudited)	-	-	-	-	-	(35,186)	(35,186)
At 31 December 2011 (Unaudited)	<u>140,943</u>	<u>-</u>	<u>81,004</u>	<u>43</u>	<u>231,340</u>	<u>(1,014,724)</u>	<u>(561,394)</u>

## 11. Dividend

The Directors resolved that no interim dividend be declared for the nine months ended 31 December 2011 (nine months ended 31 December 2010: Nil).

## 12. Contingent liabilities

At 31 December 2011, 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 acted 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

For the nine months ended 31 December 2011, the Group recorded a turnover of approximately HK\$29,856,000, representing an increase of approximately 4.9% as compared with the turnover of approximately HK\$28,456,000 for the same period last year. The gross loss margin for the current period decreased to approximately 5.3% from approximately 47.0% as recorded in the corresponding period last year, showing a significant improvement in the Group's operation.

Loss attributable to the owners of the Company for the current period was approximately HK\$35,186,000, representing a decrease of approximately HK\$11,703,000, or a decrease of approximately 25.0% as compared with the net loss of approximately HK\$46,889,000 for the same period last year. The decrease in net loss was attributable to the results of various cost control measures taken by the management on those major costs, including the printing cost and the staff cost, which can be shown by a drop of approximately 22.4% in total staff costs as compared to the same period last year.

During the current period, included in the administrative and other operating expenses were (i) legal and professional expenses of approximately HK\$2,500,000 incurred for the resumption proposal of the Company submitted to the Stock Exchange; and (ii) impairment loss of approximately HK\$4,185,000 provided for the prepayments and deposits incurred for the new equipment and parts for upgrading the printing machines and the leasehold improvement of the printing factory, due to the management's decision to discontinue the operation of the Group's printing factory. If these expenses were excluded from the administrative and other operating expenses, the Group would record a drop of approximately 27.4% in the administrative and other operating expenses as compared to the same period last year.

## Financial Resources and Liquidity

During the period under review, (i) additional loans and advances amounted to HK\$13,600,000 were granted to the Group from independent third parties, such loans and advances are unsecured, bearing interest rates ranging from 0% to 1% per month and repayable within one year; (ii) loans amounted to HK\$5,000,000 were also granted to the Group from a company, which is incorporated in Hong Kong, beneficially and wholly owned by an executive director of the Company. Such loans are unsecured, interest-free and repayable within one year; and (iii) loans amounted approximately HK\$2,743,000 had been drawn down from the loan facility of HK\$50,000,000 granted from Billion Wealth on 9 November 2010, which are interest-free, with repayment dates falling on the 24th month from the respective draw-down dates of the loan facility.

A Restraint and Charging Order was issued by the High Court of Hong Kong to among others, Mr. Yeung Ka Shing, Carson ("Mr. Yeung") (being the ultimate beneficial owner of Billion Wealth) on 6 July 2011. Accordingly, Billion Wealth may be unable to provide further financial support to the Company under the terms of the HK\$50,000,000 loan facility granted by Billion Wealth to the Company on 9 November 2010 in light of the Restraint and Charging Order.

On 10 November 2011, a loan facility with principal amount of not exceeding HK\$100,000,000 was also granted to the Group from a company wholly owned by an executive director of the Company, mainly for the Group's working capital needs. Up to the date of this report, the Group has not yet drawn down any amounts from such loan facility.

As at 31 December 2011, no assets of the Group were pledged for loan facilities granted to the Group.

## Capital Structure

As at 31 December 2012, the Company had a total of 1,971,685,971 ordinary shares in issue with par value of HK\$0.05 each. There was no change in the capital structure of the Company during the period under review.

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

As at 31 December 2011, the Group employed 117 (31 December 2010: 171) employees. Employees' remuneration packages are determined by reference to market rate and individual performance.

## **Business Review and Prospects**

The Group's newspaper publication business has been continuously facing the fierce competition from other competitors in the newspaper publication market, the market situation will be even worse in the light of the increasing number of free-of-charge newspapers emerging in the market recently.

Although the various cost control measures have taken effect on the improvements in the Group's operating functions, the Group needs to broaden its income bases by exploring new market especially in the Great China region. Upon the appointments of the new management team in August 2011, the new management has formulated a detailed business plan for the Group's development in the coming years. The new management's experiences in PRC's property development market and media industry will offer a great opportunity to the Group to penetrate into the PRC market. In December 2011, the right of setting-up its journalist stations in Guangzhou and Beijing in PRC has been granted to the Group by the related governmental departments in PRC. The Group is also in the progress of establishing an advertising company in PRC. The management believes that the journalist stations and the advertising company of the Group will not only act an important platform for the expansion of the Group's media and advertising business in the Great China region, but also strengthen the Group's core business in Hong Kong.

The new management team will strive for inviting potential strategic partners and potential investors joining the Group and raising new funds to support the Group's future financial needs for the expansion.

On 27 May 2011, the Company was informed by the Stock Exchange that the GEM Listing Committee has decided to proceed to cancellation of the Company's listing status pursuant to Rule 9.15 of the GEM Listing Rules. The Company is required to submit a viable resumption proposal within six months from 27 May 2011 to the Stock Exchange to demonstrate that the Company has a sufficient level of operations and management expertise on the business pursuits of the Company to warrant the continued listing of the Company's securities on the Stock Exchange.

On 11 November 2011, a resumption proposal was submitted to the Stock Exchange, which covers aspects including inter alia, (i) the business plan of the Company in the near future; (ii) the proposed debts restructuring exercise to reduce the substantial liabilities of the Group; and (iii) the raising of new funds from potential investor and existing shareholders by way of equity financing and loan facilities, for the Group's working capital needs and its future expansion.

In all the time, the Group will continue to monitor and control its costs carefully to ensure the efficiency of the use of existing resources. Even so, the Group will never falter in its missions, to deliver truth and fair information with the highest standards of quality and professionalism to their readers.

## **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 5.67 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 31 December 2011, 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 (the "SFO")) as recorded in the register of the Company required to be kept under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors as referred to in Rules 5.48 to 5.67 of the GEM Listing Rules.

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 31 December 2011, 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:

Name of shareholders	Capacity	No. of shares of the Company held	Long (L)/ Short (S) position	Approximate percentage of shareholding
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 shares were taken over by Billion Wealth from Strategic Media International Limited ("SMIL") by the execution of a share charge on 12 May 2010, pursuant to a share charge agreement dated 23 April 2008 entered between Billion Wealth and SMIL in relation with a loan facility of HK\$60,000,000 granted by Billion Wealth to the Company. The entire issued share capital of Billion Wealth is wholly owned by Mr. Yeung.

Save as disclosed above, at 31 December 2011, 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 “Old Option Scheme”), which expired on 14 January 2012. Pursuant to the ordinary resolution passed by the shareholders of the Company on 30 June 2010, the Old Option Scheme would be terminated and a new share option scheme (the “Option Scheme”) with similar terms with those of the Old Option Scheme was approved and adopted by the Company and would take effect conditional upon the Stock Exchange granting the approval of the listing of and permission to deal in the shares of the Company falling to be issued pursuant to the exercise of any options granted under the new share option scheme. Since the shares of the Company has been suspended since 28 April 2005, the Option Scheme will only take effect upon, inter alia, the resumption of trading in shares of the Company.

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 Company had not granted any options under the Option Scheme during the nine months ended 31 December 2011.

At 31 December 2011, 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 nine months ended 31 December 2011.

## **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 nine months ended 31 December 2011, the Company had been 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 endeavours to give 14 days' advanced notifications of Board meeting to the extent practicable (Code Provisions A.1.3);
2. 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 nine months ended 31 December 2011.

## REVIEW OF THE THIRD QUARTERLY 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. Liu Shang Ping (as the chairman of the Audit Committee), Kong Tze Wing and Xu Wei.

Mr. Liu Shang Ping and Mr. Xu Wei have been appointed as independent non-executive directors of the Company with effect from 5 August 2011 and 15 August 2011, respectively, to replace Mr. Hung Yat Ming (resigned as independent non-executive director of the Company on 5 August 2011) and Mr. Pan Chik (resigned as independent non-executive director of the Company on 15 August 2011) as members of the Audit Committee.

The Group’s interim financial results and information therein for the nine months ended 31 December 2011 have not been reviewed by the external auditor. Instead, the unaudited financial results for the nine months ended 31 December 2011 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 disclosure have been made.

## SUSPENSION OF TRADING

Suspension in the trading of the shares of the Company since 28 April 2005 will continue until the Company submits a viable resumption proposal cleared with the Stock Exchange.

By order of the Board  
**SMI Publishing Group Limited**  
**Tian Bing Xin**  
*Executive Director*

Hong Kong, 7 February 2012