



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

SMI Publishing Group Limited

(Incorporated in the Cayman Islands with limited liability)

2004/2005

Third Quarterly Report



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

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

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

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

As at the date hereof, the Board comprises nine directors of the Company, of which five are executive Directors, namely Mr. XING Jing, Mr. CUI En Qing, Mr. LI Kai, Mr. HAO Bin and Mr. LIN Ning, one is the non-executive Director namely Mr. KWOK Yat Ming and three are independent non-executive Directors, namely Mr. LAM Cheung Shing Richard, Mr. SHI Bin Hai and Mr. YAN Chun.

THIRD QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 31 DECEMBER 2004

The unaudited consolidated results of SMI Publishing Group Limited (the "Company") (formerly known as Leadership Publishing Group Limited) and its subsidiaries (together, the "Group") for the three months and nine months ended 31 December 2004, together with the comparative unaudited figures for the corresponding period in 2003 are as follows:

	Notes	Three months ended 31 December		Nine months ended 31 December	
		2004 HK\$'000	2003 (Restated) HK\$'000	2004 HK\$'000	2003 (Restated) HK\$'000
Turnover	2	29,177	31,562	85,359	90,275
Cost of sales		(37,958)	(38,806)	(113,290)	(114,129)
Gross loss		(8,781)	(7,244)	(27,931)	(23,854)
Other operating income		584	630	1,816	3,024
Advertising and promotion expenses	3	(3,113)	(1,430)	(11,406)	(4,890)
Administrative expenses		(8,798)	(10,603)	(29,970)	(33,635)
Unrealised gain on investments in securities		83	-	-	-
Impairment loss recognised in respect of goodwill of a subsidiary	9	-	(1,764)	-	(1,764)
Impairment loss reversed in respect of prepaid airtime		-	-	-	6,000
Loss from operations	4	(20,025)	(20,411)	(67,491)	(55,119)
Finance costs	5	(1,189)	(946)	(3,490)	(2,862)
Share of results of associates		(208)	(178)	(473)	(257)
Loss on disposal of a subsidiary		-	-	-	(7,539)
Loss before taxation		(21,422)	(21,535)	(71,454)	(65,777)
Taxation	6	-	-	-	-
Loss before minority interests		(21,422)	(21,535)	(71,454)	(65,777)
Minority interests		11	16	8	16
Net loss for the period		(21,411)	(21,519)	(71,446)	(65,761)
Loss per share – basic (HK\$)	7	(0.022)	(0.039)	(0.090)	(0.124)

Notes:

1. Basis of preparation and principal accounting policies

The unaudited consolidated results of the Group have been prepared in accordance with the applicable disclosure requirements set out in Chapter 18 of The Rules Governing the Listing of Securities of the Growth Enterprise Market (“GEM Listing Rules”) on The Stock Exchange of Hong Kong Limited.

The accounting policies and methods of computation adopted in the preparation of the unaudited consolidated results are consistent with those adopted in the preparation of the annual consolidated financial statements of the Group for the year ended 31 March 2004.

2. Turnover

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

	Three months ended		Nine months ended	
	31 December		31 December	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Newspapers advertising income	13,674	14,082	39,391	38,482
Magazines advertising income	–	105	–	276
Sales of newspapers	15,503	16,882	45,963	49,412
Sales of magazines	–	489	–	1,398
Internet website content sales	–	–	–	703
Sales of goods, net of discounts and allowances	–	4	5	4
	<u>29,177</u>	<u>31,562</u>	<u>85,359</u>	<u>90,275</u>

Included in newspapers and magazines advertising income is approximately HK\$4,365,000 (2003: 2,112,000) in respect of barter transactions entered into during the period.

3. Advertising and promotion expenses

	Three months ended		Nine months ended	
	31 December		31 December	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amortization of prepaid airtime	1,320	717	6,957	2,152
Others expenses for advertising and promotion	1,793	713	4,449	2,738
	<u>3,113</u>	<u>1,430</u>	<u>11,406</u>	<u>4,890</u>

4. Loss from operations

	Three months ended		Nine months ended	
	31 December		31 December	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss from operations has been arrived at after charging (crediting):				
Depreciation and amortisation of property, plant and equipment	4,971	4,995	14,825	15,229
Cost of inventories charged as cost of sales	14,433	11,083	39,458	30,968
Interest income	(45)	(63)	(133)	(210)
	<u>(45)</u>	<u>(63)</u>	<u>(133)</u>	<u>(210)</u>

5. Finance costs

	Three months ended		Nine months ended	
	31 December		31 December	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on:				
Other loans	671	663	1,993	1,984
Finance leases	100	190	393	600
Loan from related companies	413	93	1,089	278
Amount due to a shareholder	5	-	15	-
	<u>1,189</u>	<u>946</u>	<u>3,490</u>	<u>2,862</u>

6. Taxation

No provision for Hong Kong Profits Tax has been made in the unaudited consolidated financial statements as the Group has no estimated assessable profit for both periods. The Group has no estimated assessable profits in other jurisdictions for both periods.

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

7. Loss per share

The calculation of the basic loss per share for the three months and nine months ended 31 December 2004 is based on the respective unaudited net loss of approximately HK\$21,411,000 and HK\$71,446,000 (2003: HK\$21,519,000 and HK\$65,761,000) and the weighted average number of 991,685,971 shares and 791,763,082 shares (2003: 551,123,981 shares and 529,681,679 shares) in issue during the periods.

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

8. Reserves

	Shareholders' contributions HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Exchange reserve HK\$'000	Distributable reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2003 (Audited)	72,894	96,645	121,914	2,212	231,340	(462,275)	62,730
Issue of shares	-	29,599	-	-	-	-	29,599
Share issue expenses	-	(169)	-	-	-	-	(169)
Released on disposal of a subsidiary	-	-	-	92	-	-	92
Net loss for the period	-	-	-	-	-	(61,729)	(61,729)
At 31 December 2003							
- As previously reported	72,894	126,075	121,914	2,304	231,340	(524,004)	30,523
- Prior period adjustment in respect of acquisition of a subsidiary (Note 9)	-	-	-	-	-	(4,032)	(4,032)
- As restated	<u>72,894</u>	<u>126,075</u>	<u>121,914</u>	<u>2,304</u>	<u>231,340</u>	<u>(528,036)</u>	<u>26,491</u>
At 1 April 2004 (Audited)	72,894	126,075	121,914	2,304	231,340	(566,140)	(11,613)
Issue of shares	-	3,300	-	-	-	-	3,300
Share issue expenses	-	(365)	-	-	-	-	(365)
Right issue expenses	-	(1,235)	-	-	-	-	(1,235)
Net loss for the period	-	-	-	-	-	(71,446)	(71,446)
At 31 December 2004	<u>72,894</u>	<u>127,775</u>	<u>121,914</u>	<u>2,304</u>	<u>231,340</u>	<u>(637,586)</u>	<u>(81,359)</u>

9. Prior period adjustment

In the prior period of three months ended 31 December 2003, certain intellectual properties assets was mistakenly included on the acquisition of a subsidiary and a gain on acquisition of a subsidiary amounted to HK\$2,268,000 was accounted in the unaudited consolidated results in same quarter last year. Adjustment on prior period error was made accordingly that an impairment loss in respect of goodwill of subsidiary amounted to HK\$1,764,000 was then recognised. As a results, unaudited net loss for the three months and nine months ended 31 December 2003 were restated from HK\$17,487,000 and HK\$61,729,000 to HK\$21,519,000 and HK\$65,761,000 respectively. Loss per share for the three months and nine months ended 31 December 2003 were restated from HK\$0.032 and HK\$0.117 to HK\$0.039 and HK\$0.124 respectively. The adjustment to prior period error was made to consistent with the audited annual consolidated financial statements of the Group for the year ended 31 March 2004.

INTERIM DIVIDEND

The board of directors does not recommend the payment of an interim dividend for the nine months ended 31 December 2004 (2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group's turnover for the three months ended 31 December 2004 was HK\$29,177,000, flat over the same quarter last year. Sales of newspaper increased by 5.2% as compared to last quarter due to the resumption of the horseracing season. However, newspaper advertising income slightly decreased by 3.5% as compared to last quarter due to the sudden drop in property advertisement in the quarter under review. The Group continues to adhere to its stringent cost control measures and diversify its publication and advertiser base. Net loss of the period under review was decreased by 14.4% and 0.5% as compared to last quarter and same quarter last year respectively.

For the nine months ended 31 December 2004, the Group recorded a turnover of approximately HK\$85,359,000, representing a decrease of 5.4% as compared with the same period last year. The main reasons for the decrease in turnover were the disposal of Wide Angle Magazine in February 2004 and the reduction of equity interest in China Youth On-Line to 25% in July 2003, the turnover of which were not consolidated to the Group's account and also resulting from the fierce market competition.

Net loss for the nine months ended 31 December 2004 was approximately HK\$71,446,000, increased by 8.6% as compared with the same period last year. The results for the period under review was affected by the printing costs for the period under review due to the global continuous increase news paper price and increased consumption resulting from the increase in content of Sing Pao Daily News ("SPDN"), the total paper costs increased by approximately HK\$6,500,000 for the nine months ended 31 December 2004 over the same period last year.

By adoption the continuous and persistent cost control measures, the Group recorded a decrease of 17.0% and 10.9% respectively in the administrative expenses for the three months and nine months ended 31 December 2004 as compared to same period last year. As most of the terms of prepaid airtime contracts fell into the period under review, amortization of prepaid airtime increased by HK\$603,000 and HK\$4,805,000 respectively for the three months and nine months ended 31 December 2004 as compared to same period last year. In order to strengthen SPDN's competitiveness, the other advertising and promotion expenses were increased during the respective period under review. The finance costs was increased by 25.7% and 21.9% respectively for the three months and nine months ended 31 December 2004 as compared to same period last year due to the increased shareholder's loan.

FINANCIAL RESOURCES

In April 2004, the Company entered into a placing agreement with Kingsway Financial Services Limited (“Kingsway”). Kingsway, acting as the agent of the Company, agree to use its best endeavors to place 110,000,000 new shares of the Company at HK\$0.08 per share to at least six independent third parties. The placing was completed on 26 April 2004 and the net proceed of HK\$8,440,000 was raised as the general working capital for the Group, mainly used for the operating expenses for SPDN.

In July 2004, the Company and Kingsway entered into the Underwriting Agreement in relation to the underwriting arrangement of the proposed rights issue of not less than 330,561,990 rights shares of HK\$0.05 each on the basis of one rights share for every two existing shares held by the qualifying shareholders on the record date payable in full on acceptance. The Rights Issue was completed on 8 September 2004 and the net proceed of HK\$15,300,000 was raised as the general working capital for the Group, mainly used for the operating expenses for SPDN.

During the three months ended 31 December 2004, the Group sought additional loans amounted to HK\$7,200,000 from a facility of HK\$20,000,000 granted by Strategic Media International Limited (“SMIL”), a substantial shareholder, for financing as the general working capital of the Group, mainly used for the operating expenses of SPDN. As at 31 December 2004, the total outstanding shareholder loans due to SMIL was amounted to HK\$31,700,000.

As at 31 December 2004, the Group has two litigations arising from its normal publishing business in Hong Kong, the outcomes of which are not ascertainable at present. A Writ of Summons was received regarding the claim for the rental of office premises of the Group together with the miscellaneous fees in the sum of approximately HK\$2,305,098 for the tenancy period from September to December 2004. The Group is seeking to resolve it in an amicable way with the landlord.

Newspaper – Sing Pao Daily News

During the period under review, the total turnover of the Group was derived from SPDN. The strong and stable readership ensured stable circulation income. The adoption of a series of stringent cost control measures had also led to a significant reduction in operating cost from the period before.

During the three months ended 31 December 2004, SPDN continued the publishing of “Sing Pao Race Card Extra” and “Sing Pao Football Extra” which were distributed in Hong Kong Jockey Club off-course betting branches free of charge. These two Special Editions have been well accepted by the market and the Group successfully attracted related advertisements. Furthermore, SPDN also continued the publishing of the special bind edition distributed at oil stations. This edition was free of charge and the drivers could get it every Saturdays and Sundays. The contents of the special bind edition was Car News, Entertainment News, Supplement News and Sunday Grand Seigneur. This special bind edition successfully won advertisements from the car market.

SPDN continued its content enrichment, its growing quality and layout improvements, leading to the further expansion of its readership base. During the three months ended 31 December 2004, SPDN has launched three supplements distributed free of charge with our newspaper. “Children on Sunday” is targeting the children and parents readers and is distributed with our newspaper on every Sundays. “i – catching” is specialized in reporting contemporary electronic products which is distributed with our newspaper and also at several electronic shopping malls in Hong Kong on every Fridays. “Mixer” is targeting the teenagers and youngsters readers in which the editorial is done by a team of college students studying media and was distributed with our newspaper and also at colleges in Hong Kong on every Saturdays. These supplements are well accepted by readers and are attracting new advertisers to place advertisements.

To return the readers, SPDN has launched “Make Communication beyond the Boundary” for the period from 18 to 26 November 2004. Readers can get a Sing Pao IDD Card valued at HK\$300 by giving two SPDN headers. With the high responses, all the cards have been redeemed in four days.

Joining with East Asia Satellite Television (“EAST”), SPDN has been launching the Q&A competition to the SPDN readers and EAST watchers since November 2004. The game is held in the TV program, “Hong Kong Today”, presenting at NOW Broadband Channel 36 broadcast at 9:00 pm from Mondays to Fridays. The rewards to the winners include Free Tickets to Macau, Boat Trips in Hong Kong, IDD cards, electrical mosquito killers and vacuum cups.

In December 2004, SPDN has offered the vacuum cups for redemption at the assigned Circle K convenience stores by giving two different colours SPDN headers.

Education is one of SPDN's developing focuses. SPDN treasures the opportunity to promote the educational activities and advocates the young generation to contribute to the community. With the cooperation of HKU School of Professional and Continuing Education ("SPACE"), SPDN is planning to launch "Sing Pao Student Post". In the meantime, over 60 students from nine secondary schools and SPACE are responsible for the works of "Sing Pao Student Post".

Sing Pao Publishing

Sing Pao Publishing Limited, a wholly owned subsidiary, was formed in August 2004 and is engaged in publishing of books from renowned writers mainly from Hong Kong and China. The Group anticipates this company will provide new stream of income in the near future.

News and Entertainment website

The revamped "singpao.com" provides readers with comprehensive information and appealing important news everyday to expand the readership base. The website maintained steady daily hits during the period in review and visitors had been expanded to not only the younger group and also non-SPDN readers.

PROSPECTS

SPDN engraved the longest history in Hong Kong with the mission of natural, creative and innovative. Looking ahead, the Group will continue to focus on its core business of SPDN and will explore the business opportunity in publishing industry of the Greater China Region in order to broaden the source of revenue.

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

As at 31 December 2004, the interests or short positions of the directors and chief executive of the Company and their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

a. The Company

Share Option

Name of Directors	Date of grant	Exercise period	Exercisable price per share (HK\$)	Number of share option outstanding as at 31 December 2004
LIN Ning	13/8/2003	13/8/2003-12/8/2013	0.395	6,434,400

b. Associated Corporation

SMI Corporation Limited ("SMI")

Share Option

Name of Directors	Date of grant	Exercise period	Exercisable price per share (HK\$)	Number of share option outstanding as at 31 December 2004
XING Jing	28/7/2003	28/1/2004-27/1/2007	0.033	43,000,000

Save as disclosed above, none of the directors, chief executive or their associates had, as at 31 December 2004, any interests or short positions in any shares, underlying shares or debentures of, the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

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 body corporate.

INTERESTS OR SHORT POSITIONS OF SHAREHOLDERS

As at 31 December 2004, the persons or corporations (not being a director or chief executive of the Company) who have interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO or have otherwise notified to the Company were as follows:

Name of shareholders	Capacity	No. of shares of the Company held	Approximate percentage of shareholding
QIN Hui	Held by controlled corporation	261,473,945 (Note 1)	26.37%
Strategic Media International Limited	Held by controlled corporation	261,473,945 (Note 1)	26.37%
SMI	Held by controlled corporation	102,880,630 (Note 2)	10.37%
Precious Days Limited	Held by controlled corporation	102,880,630 (Note 2)	10.37%
Lucky Cosmos Limited	Beneficial owner	102,880,630 (Note 2)	10.37%

Name of shareholders	Capacity	No. of shares of the Company held	Approximate percentage of shareholding
LAM Ka Chun William	Held by controlled corporation	71,873,415 <i>(Note 3)</i>	7.25%
LAM WONG Yuk Sin Mary	Held by controlled corporation	71,873,415 <i>(Note 3)</i>	7.25%
CHOI Koon Shum Jonathan	Held by controlled corporation	71,873,415 <i>(Note 3)</i>	7.25%
KWAN Wing Kum Janice	Held by spouse	71,873,415 <i>(Note 3)</i>	7.25%
Kingsway International Holdings Limited	Held by controlled corporation	71,873,415 <i>(Note 3)</i>	7.25%
Innovation Assets Limited	Held by controlled corporation	71,873,415 <i>(Note 3)</i>	7.25%
World Developments Limited	Held by controlled corporation	71,873,415 <i>(Note 3)</i>	7.25%
SW Kingsway Capital Holdings Limited	Held by controlled corporation	71,873,415 <i>(Note 3)</i>	7.25%
Kingsway China Holdings Limited	Held by controlled corporation	71,873,415 <i>(Note 3)</i>	7.25%
Festival Developments Limited	Held by controlled corporation	71,873,415 <i>(Note 3)</i>	7.25%
Kingsway Lion Spur Technology Limited	Beneficial owner	71,873,415 <i>(Note 3)</i>	7.25%
JIAO Eri	Beneficial owner	93,000,000 <i>(Note 4)</i>	9.38%

Name of shareholders	Capacity	No. of shares of the Company held	Approximate percentage of shareholding
SINA Corporation	Beneficial owner	51,769,817 (Note 4)	5.22%
PENG Chi Hui	Beneficial owner	50,000,000 (Note 4)	5.04%

Note:

1. Strategic Media International Limited, wholly owned by Mr. QIN Hui, is beneficially interested in 48.79% of the issued share capital of SMI. By virtue of the SFO, both of Strategic Media International Limited and Mr. QIN Hui are deemed to be interested in all the shares in which SMI is interested.
2. Lucky Cosmos Limited is a wholly-owned subsidiary of Precious Days Limited which is, in turn, a wholly-owned subsidiary of SMI, the entire issued share capital of which is listed on the Main Board of the Stock Exchange. By virtue of the SFO, both of Precious Days Limited and SMI are deemed to be interested in all the shares in which Lucky Cosmos Limited is interested.
3. Kingsway Lion Spur Technology Group 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 of the Stock Exchange. 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 Mrs. 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, both 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 shares in which Mr. Choi is interested.

4. Mr. JIAO Erli, SINA Corporation and Mr. PENG Chi Hui are independent of and not connected with any of the directors, chief executives, substantial shareholders or management shareholders of the Company or any of its subsidiaries or their respective associates (as defined in the GEM Listing Rules).

Save as disclosed above, as at 31 December 2004, the Directors are not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company representing 5% or more of the issued share capital of the Company.

CHANGE OF THE COMPANY NAME

Pursuant to the special resolution passed in the Extraordinary General Meeting of the Company on 7 December 2004 ("EGM"), the Company name has been changed to SMI Publishing Group Limited, for identification purpose, 星美出版集團有限公司, was adopted as the Chinese name of the Company in order to better reflect the change of substantial shareholder of the Company in February 2004.

INCREASE OF AUTHROISED SHARE CAPITAL

Pursuant to the ordinary resolution passed in the EGM, the authorised share capital of the Company has been increased to HK\$200,000,000 of 4,000,000,000 shares at the nominal value of HK\$0.05 each.

NUMBER OF EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2004, the Group employed approximately 384 (2003: 425) full time employees. Employees' remuneration packages are reviewed and determined by reference to the market pay and individual performance.

SHARE OPTION SCHEME

Following the completion of the Rights Issue, the subscription price and the number of shares to be allotted upon the exercise of outstanding share option have been adjusted to HK\$0.395 and 22,520,400 respectively pursuant to the Employee Share Option Scheme (the "Scheme") adopted on 15 January 2002.

Pursuant to the ordinary resolution passed in the EGM, the Company has granted for refreshing the 10 per cent. mandate limit (the “Refreshed Scheme Limit”) under the Scheme pursuant to paragraph 20.03(3) of the rules of the Scheme such that the total number of shares which may be allotted and issued upon the exercise of all options to be granted under the Scheme and any other share option scheme(s) of the Company under the Refreshed Scheme Limit shall not exceed 10 per cent. of the shares in issue on the date of passing of the resolution, provided that for the purpose of calculating whether the Refreshed Scheme Limit is exceeded, all shares which are subject to or had been subject to the options granted under the Scheme and any other share option scheme(s) of the Company prior to the passing of the resolution (including options outstanding, cancelled, lapsed or exercised in accordance with the terms of the Scheme or any other share option scheme(s) of the Company) shall not taken into account, and the directors of the Company or duly authorised committee thereof be and they are hereby authorised to grant options and to allot, issue and deal with unissued shares pursuant to the exercise of options granted under the Scheme within the Refreshed Limit in accordance with the rules of the Scheme.

During the nine months ended 31 December 2004, no share option has been granted and exercised pursuant to the 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.

AUDIT COMMITTEE

The Company has established the Audit Committee comprising of three members, namely, Mr. LAM Cheung Shing Richard, Mr. SHI Bin Hai and Mr. YAN Chun. They are responsible for the revision of the annual report and accounts, half-yearly report and quarterly reports and the provision of the advice and comment to the board of directors. In addition, they are responsible for revision and supervision of the financial reporting process and internal control procedures of the Group.

The Audit Committee has already reviewed the Group’s third quarterly results for the nine months ended 31 December 2004.

BOARD PRACTICE AND PROCEDURE

The Company has complied with the board practices and procedures as set out in Appendix 15 of the GEM Listing Rules throughout the nine months ended 31 December 2004.

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 nine months ended 31 December 2004.

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

Hong Kong, 3 February 2005