



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)

First Quarterly Report
2005

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

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

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

As at the date hereof, the board of Directors (the “Board”) of the Company comprises nine Directors, 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. SHI Bin Hai, Mr. YAN Chun and Mr. CHAN Nga Sang, Kenny.

FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 30 JUNE 2005

The unaudited consolidated results of SMI Publishing Group Limited (the "Company") and its subsidiaries (together, the "Group") for the three months ended 30 June 2005, together with the comparative unaudited figures for the corresponding period ended 30 June 2004 are as follows:

	Notes	Three months ended 30 June	
		2005 HK\$'000	2004 HK\$'000
Turnover	2	23,385	27,272
Cost of sales		(33,491)	(37,210)
Gross loss		(10,106)	(9,938)
Other operating income		638	636
Advertising and promotion expenses		(567)	(3,821)
Administrative expenses		(7,999)	(10,918)
Unrealised (loss) gain on investments in securities		(383)	200
Loss from operations		(18,417)	(23,841)
Finance costs	3	(2,059)	(1,091)
Share of results of an associate		(208)	(90)
Loss before taxation		(20,684)	(25,022)
Taxation	4	—	—
Loss before minority interests		(20,684)	(25,022)
Minority interests		—	(13)
Net loss for the period		(20,684)	(25,035)
Loss per share — basic (HK\$)	5	(0.02)	(0.04)

Notes:

1. Basis of presentation and principal accounting policies

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

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

The accounting policies and methods of computation adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2005. The accounts are unaudited but have been reviewed by the Company's audit committee.

2. Turnover

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

	Three months ended 30 June	
	2005 HK\$'000	2004 HK\$'000
Newspapers advertising income	8,895	11,551
Sales of newspapers	14,332	15,721
Sales of books	156	—
Sales of goods, net of discounts and allowances	2	—
	23,385	27,272

Included in newspapers advertising income is approximately HK\$189,000 (2004: HK\$916,000) in respect of barter transactions entered into during the period.

3. Finance costs

	Three months ended 30 June	
	2005 HK\$'000	2004 HK\$'000
Interest on:		
Other loans	717	656
Finance leases	836	156
Advances from a substantial shareholder/related company	276	183
Loans from related companies	100	91
Amount due to a shareholder	5	5
Convertible notes	125	—
	2,059	1,091

4. Taxation

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

5. Loss per share

The calculation of the basic loss per share for the period is based on the net loss for the period of approximately HK\$20,684,000 (2004: HK\$25,035,000) and the weighted average number of 991,685,971 shares (2004: 630,904,201 shares) in issue during the period.

No disclosure for diluted loss per share as the exercise of the Company's outstanding share options would result in a reduction in loss per share.

6. 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
THE GROUP							
At 1 April 2004	72,894	126,075	121,914	2,304	231,340	(566,140)	(11,613)
Issue of shares	—	3,300	—	—	—	—	3,300
Share issue expenses	—	(359)	—	—	—	—	(359)
Net loss for the period	—	—	—	—	—	(25,035)	(25,035)
At 30 June 2004	72,894	129,016	121,914	2,304	231,340	(591,175)	(33,707)
At 1 April 2005	72,894	127,764	121,914	2,304	231,340	(666,832)	(110,616)
Equity Reserve*	—	—	—	—	4,106	—	4,106
Net loss for the period	—	—	—	—	—	(20,684)	(20,684)
At 30 June 2005	72,894	127,764	121,914	2,304	235,446	(687,516)	(127,194)

* This equity reserve, represent the equity component of convertible debt instruments.

7. Interim dividend

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the three months ended 30 June 2005, the Group recorded a turnover of approximately HK\$23,385,000, representing a decline of 14% as compared with approximately HK\$27,272,000 of the same period last year. This was mainly due to less advertising income and sales of newspapers.

Net loss for the three months ended 30 June 2005 was approximately HK\$20,684,000, representing a decrease by 17% as compared with approximately HK\$25,035,000 of the same period last year.

The decrease in cost of sales was due to decrease in sale of newspapers. It was partially offset by the global continuous increase of news paper price. The average purchase price of the news paper was increased by approximately 17% when compared to the same period last year.

There is substantial savings on the advertising and promotion expenses by approximately HK\$3.3 million as all prepaid airtime contracts were utilized and a precise selection was applied on marketing activities in this period under review.

The cost cutting program in response to the fierce competition of local printed media, combined with very strict cost controls, has lowered administrative expenses by approximately HK\$2.9 million, representing a decline by 26% as compared to the same period last year. However, finance cost was increased by approximately HK\$1 million due to increase in overdue interests for the finance leases.

The impact of the 14% decline in revenues was thus partially offset. Although the Group registered a HK\$20.7 million net loss for the period under review, this nevertheless representing the loss decreased by HK\$4.3 million compared to the same period last year.

Financial Resources

On 30 April 2005, the company completed the issue of HK\$50 million convertible notes ("Convertible Notes") to Strategic Media International Ltd. ("SMIL") under a subscription agreement dated 3 February 2005. The Convertible Notes bear interest at the rate of 1.5% per annum on the principal amount and is convertible the whole or part of the principal amount into the ordinary shares of the Company at HK\$0.05 per share, which represented a premium of approximately 66.67% to the closing pricing of HK\$0.03 per share, as quoted on the Stock Exchange on 21 December 2004.

The proceed on the issue of the Convertible Notes has been applied to repay the advances and accrued interests of approximately HK\$45 million outstanding at 30 April 2005 made by SMIL to the Group in accordance with the terms of the subscription agreement and net cash provided to the Group is approximately HK\$5 million.

In this period under review, SMIL has further injected HK\$13 million as the general working capital for the Group, mainly used for the operating expenses for Sing Pao Daily News.

Sing Pao Daily News ("SPDN") and Sing Pao Publishing Limited ("SPP")

Marketing activities were carried out to improve the revenue and advertisement income in the first quarter as follows:

Students Edition Phase II

Following the Students Edition Scheme Phase I, Students Edition Phase II is to be published on every Sunday from 10 April to 4 September, with the participants increasing from 60 to 120 and a total of 20 middle schools involved. On 23 July, an awarding ceremony for Student Edition Phase II was held. This Scheme is excessively supported by Education and Manpower Bureau ("EMB") and HKU Space Community College. Each publication of the Students Edition received the students' active subscription, with 500 to 1,000 additional subscriptions for each issue.

SPDN Appreciation Meeting

On 25 May, SPDN held in Shenzhen for the first time a meeting for marketing and fellowship-establishment, with a theme of "2005 Hong Kong SPDN Appreciation Meeting — Accomplishment & Honour", eyeing to provide more information on SPDN to domestic merchants, analyze the advertisement efficiency of SPDN and introduce marketing directions for the next year, so as to further increase advertisement opportunities. In addition, we also signed some letters of intention of cooperation with several large business institutions during the meeting, establishing domestic merchants' confidence in SPDN.

SPP's Sales Benefit Readers

In order to show gratitude for our readers' support, SPP held a two-day Special Open Sales Activity on May 28–29. Some books were sold for only 1 Hong Kong dollar and received active response. The first reader lining on the long queue outside the Sing Pao Building had been waiting for two hours for the activity, and all books were sold out in less than one hour after the beginning of the activity.

A Lecture on "Three, Three, Four" Education System

SPDN has been actively taking part in education activities to widen the publicity scope in recent years, and it is thus supported by EMB, which in conjunction with SPDN held a lecture on "the influence of new education system on the next generation in Hong Kong" at Lutheran Secondary School on 18 June to introduce "Three, Three, Four" education system, explaining the new education system for parents and students from various aspects to relieve their worries. A large number of people attended on this lecture. Therefore, SPDN will continue its efforts in cooperating with EMB for more related lectures, so as to draw more attention of the education circle on SPDN.

PROSPECTS

We expect to face new challenges from competing free newspapers such as Headline daily and increasing print cost.

The Group will continue to focus on its core business of SPDN and will explore the business opportunity in publishing industry and digital media markets of the Greater China Region in order to broaden the source of revenue.

NUMBER OF EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2005, the Group employed 362 (2004: 422) employees. Employees' remuneration packages are determined by reference to market rate and individual performance.

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

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

a. The Company

Share option

Name of Director	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options outstanding as at 30 June 2005
LIN Ning	13.8.2003	13.8.2003– 12.8.2013	0.395	6,434,400

b. Associated Corporation — SMI Corporation Limited

Share option

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

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

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

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

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

Name of shareholders	Capacity	No. of shares held	Approximate percentage of shareholding
QIN Hui	Held by controlled corporation	259,779,945 (Note 1)	26.20%
Strategic Media International Limited	Beneficial owner	259,779,945 (Note 1)	26.20%
LAM Ka Chung William	Held by controlled corporation	71,873,415 (Note 2)	7.25%
LAM Wong Yuk Sin Mary	Held by controlled corporation	71,873,415 (Note 2)	7.25%
CHOI Koon Shum Jonathan	Held by controlled corporation	71,873,415 (Note 2)	7.25%
KWAN Wing Kum Janice	Held by spouse	71,873,415 (Note 2)	7.25%
Kingsway International Holdings Limited	Held by controlled corporation	71,873,415 (Note 2)	7.25%
Innovation Assets Limited	Held by controlled corporation	71,873,415 (Note 2)	7.25%
World Developments Limited	Held by controlled corporation	71,873,415 (Note 2)	7.25%

Name of shareholders	Capacity	No. of shares held	Approximate percentage of shareholding
SW Kingsway Capital Holdings Limited	Held by controlled corporation	71,873,415 (Note 2)	7.25%
Kingsway China Holdings Limited	Held by controlled corporation	71,873,415 (Note 2)	7.25%
Festival Developments Limited	Held by controlled corporation	71,873,415 (Note 2)	7.25%
Kingsway Lion Spur Technology Limited	Beneficial owner	71,873,415 (Note 2)	7.25%
JIAO Erli	Beneficial owner	93,000,000 (Note 3)	9.38%
SINA Corporation	Beneficial owner	51,769,817 (Note 3)	5.22%
PENG Chi Hui	Beneficial owner	50,000,000 (Note 3)	5.04%

Notes:

1. Strategic Media International Limited is wholly owned by Mr. QIN Hui.
2. Kingsway Lion Spur Technology Limited ("KLST") is a wholly-owned subsidiary of Festival Developments Limited ("FDL"). FDL is a wholly-owned subsidiary of Kingsway China Holdings Limited ("KCH"). KCH is a wholly-owned subsidiary of SW Kingsway Capital Holdings Limited ("SWK"), the entire issued share capital of which is listed on the Main Board. SWK is a non-wholly owned subsidiary of World Developments Limited ("WDL"). WDL is a wholly-owned subsidiary of Innovation Assets Limited ("IAL"). IAL is a wholly-owned subsidiary of Kingsway International Holdings Limited ("KIH"), which is listed on the Toronto Stock Exchange. By virtue of the SFO, FDL, KCH, SWK, WDL, IAL and KIH are deemed to be interested in all the shares in which KLST is interested.

Mr. LAM Ka Chung William and Madam LAM Wong Yuk Sin Mary, the spouse of Mr. Lam, hold more than one-third interest in KIH. By virtue of the SFO, both Mr. and Madam Lam are deemed to be interested in all the shares in which KIH is interested.

Mr. CHOI Koon Shum Jonathan holds more than one-third interest in KIH. By virtue of the SFO, Mr. Choi is deemed to be interested in all the shares in which KIH is interested. Madam KWAN Wing Kum Janice, the spouse of Mr. Choi, is deemed to be interested in all the shares in which Mr. Choi is interested.

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

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

SHARE OPTION SCHEME

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

	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options		Balance as at 30.6.2005
				Balance as at 31.3.2005	Lapsed upon resignation	
<i>Category 1:</i>						
Director LIN Ning	13.8.2003	13.8.2003– 12.8.2013	0.395	6,434,400	—	6,434,400
Sub-total				6,434,400	—	6,434,400
<i>Category 2:</i>						
Employees	13.8.2003	13.8.2003– 12.8.2013	0.395	16,086,000	6,434,400	9,651,600
Total				22,520,400	6,434,400	16,086,000

During the three months ended 30 June 2005, no share option had been granted and exercised pursuant to the Option Scheme.

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 cause or may cause significant competition with the business of the Group.

BOARD PRACTICES AND PROCEDURES

The Company had complied with Rule 5.34 of the GEM Listing Rules concerning board practices and procedures throughout the three months ended 30 June 2005.

AUDIT COMMITTEE

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

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

REMUNERATION COMMITTEE

The Remuneration Committee was established on 28 July 2005 with specific terms of reference as in compliance with "Appendix 15: Code on Corporate Governance Practices" to the GEM Listing Rules. The Remuneration Committee comprises three members, one of which is executive Director, namely, Mr. XING Jing, and two are independent non-executive Directors, namely, Mr. SHI Bin Hai and Mr. CHAN Ngai Sang, Kenny. The Remuneration Committee will review and make recommendations to the Board on the remuneration system of the Company.

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

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

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

Hong Kong, 12 August 2005