



星美出版集團有限公司
SMI PUBLISHING GROUP LIMITED
Stock Code : 8010

SMI PUBLISHING GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

First Quarterly Report 2006

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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: (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.

FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 30 JUNE 2006

The unaudited consolidated results of SMI Publishing Group Limited (the "Company") and its subsidiaries (collectively the "Group") for the three months ended 30 June 2006, together with the comparative unaudited figures for the corresponding period ended 30 June 2005 are as follows:

UNAUDITED CONSOLIDATED INCOME STATEMENT

For the three months ended 30 June 2006

	Notes	Three months ended 30 June	
		2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Turnover	2	16,987	23,385
Cost of sales		(25,538)	(33,491)
Gross loss		(8,551)	(10,106)
Other operating income		305	638
Advertising and promotion expenses		(389)	(567)
Administrative expenses		(7,588)	(7,999)
Unrealised (loss) gain on investments in securities		—	(383)
Loss from operations		(16,223)	(18,417)
Finance costs	3	(2,237)	(2,059)
Share of results of an associate		—	(208)
Loss before taxation		(18,460)	(20,684)
Taxation	4	—	—
Loss before minority interests		(18,460)	(20,684)
Minority interests		—	—
Net loss for the period		(18,460)	(20,684)
Loss per share — basic (HK\$)	5	(0.02)	(0.02)

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.

The accounting policies and methods of computation adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2006. The accounts are unaudited but have been reviewed by the Company's audit committee.

2. Turnover

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

	Three months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Newspapers advertising income	4,812	8,895
Sales of newspapers	12,017	14,332
Sales of books	158	156
Sales of goods, net of discounts and allowances	—	2
	16,987	23,385

Included in newspapers advertising income is approximately HK\$Nil (2005: HK\$189,000) in respect of barter transactions entered into during the period.

3. Finance costs

	Three months ended 30 June	
	2006	2005
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Interest on:		
Other loans	1,052	717
Finance leases	9	836
Advances from a substantial shareholder/related company	1,066	276
Loans from related companies	105	100
Amount due to a shareholder	5	5
Convertible notes	—	125
	2,237	2,059

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\$18,460,000 (2005: HK\$20,684,000) and the weighted average number of approximately 991,685,971 shares (2005: 991,685,971 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

	Convertible note equity reserve	Shareholders' contributions	Share premium	Merger reserve	Exchange reserve	Distributable reserve	Fair value reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP									
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)
At 1 April 2006	16,432	72,894	127,764	121,914	2,347	231,340	(133)	(767,794)	(195,236)
Net loss for the period	—	—	—	—	—	—	—	(18,460)	(18,460)
At 30 June 2006	16,432	72,894	127,764	121,914	2,347	231,340	(133)	(786,254)	(213,696)

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

INTERIM DIVIDEND

The board of Directors resolved that no interim dividend was declared for the three months ended 30 June 2006 (2005: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the three months ended 30 June 2006, the Group recorded a turnover of approximately HK\$16,987,000, representing a decline of 27% as compared with approximately HK\$23,385,000 of the same period of last year. This was mainly due to less advertising income and sales of newspapers.

Net loss for the three months ended 30 June 2006 was approximately HK\$18,460,000, representing a decrease of 11% as compared with approximately HK\$20,684,000 of the same period of last year.

The decrease in turnover was due to fierce market competition. The results for the period under review was also affected by the printing costs due to the global continuous increase in paper price.

The cost control program in response to the fierce competition of local printed media has lowered administrative expenses by approximately HK\$411,000, representing a decline of 5% as compared to the same period of last year.

The finance cost has increased by 8% compared to the same period of last year due to increase in shareholder's loan which mainly finance the operating expenses of Sing Pao Daily News ("SPDN").

Financial Resources

In this period under review, the shareholder's loan from Strategic Media International Limited ("SMIL") was further increased by HK\$14,809,000 for the general working capital for the Group which was mainly used for the operating expenses of SPDN.

As at 30 June 2006, the total outstanding shareholder's loan due to SMIL was amounted to HK\$62,315,000.

CAPITAL STRUCTURE

There were no changes in the capital structure of the Company during the period (2005: Nil).

NUMBER OF EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2006, the Group employed 286 (2005: 362) employees. Employees' remuneration packages are determined by reference to market rate and individual performance.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2006, 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 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 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

As at 30 June 2006, the persons or corporations (not being a Directors or chief executive of the Company) who have interests or short positions in the 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 are as follows:

<u>Name of shareholders</u>	<u>Capacity</u>	<u>No. of shares of the Company held</u>	<u>Approximate percentage of shareholding</u>
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 of the Company 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.

Save as disclosed above, as at 30 June 2006, 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 10% or more of the issued share capital of the Company.

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 2006 was as follows:

	Date of grant	Exercisable period	Exercise price per share HK\$	Number of options		
				Balance as at 31.3.2006	Lapsed upon resignation	Balance as at 30.6.2006
Employees	13.8.2003	13.8.2003 – 12.8.2013	0.395	9,651,600	6,434,400	3,217,200
Total				9,651,600	6,434,400	3,217,200

During the three months ended 30 June 2006, 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.

AUDIT COMMITTEE

The Audit Committee comprises four independent non-executive Directors, namely, Mr. SHI Bin Hai, Mr. YAN Chun, Mr. JIANG Jin Sheng and Mr. KONG Tze Wing. The duties of the Audit Committee of the Company are to review the annual report and accounts, half-yearly reports and quarterly reports and to provide advice and comment to the Board. In addition, it is responsible for reviewing and supervising the financial reporting process and internal control procedures of the Group.

The unaudited first quarterly results of the Group for the three months ended 30 June 2006 have been reviewed by the Audit Committee.

PURCHASE, SALE AND REDEMPTION OF LISTING 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 2006.

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

Hong Kong, 3 May 2007