



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

SMI PUBLISHING GROUP LIMITED

支持HSDPA技術 (incorporated in the Cayman Islands with limited liability)

Third Quarterly Report
2006

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.

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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 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.

THIRD QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 31 DECEMBER 2006

The board of Directors (the "Board") of SMI Publishing Group Limited (the "Company") and its subsidiaries (together the "Group") announces the unaudited consolidated results of the Group for the three months and nine months ended 31 December 2006, together with the comparative unaudited figures for the corresponding periods in 2005 are as follows:

	Notes	Three months ended 31 December		Nine months ended 31 December	
		2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Turnover	2	19,803	20,870	53,315	65,676
Cost of sales		(27,232)	(33,371)	(77,981)	(99,003)
Gross loss		(7,429)	(12,501)	(24,666)	(33,327)
Other operating income		415	955	1,217	2,695
Advertising and promotion expenses		(9)	(499)	(798)	(1,940)
Administrative expenses		(8,083)	(7,911)	(23,097)	(23,729)
Realised gain on investments in securities		(99)	—	(99)	—
Loss from operations	3	(15,205)	(19,956)	(47,443)	(56,301)
Finance costs	4	(2,250)	(1,994)	(6,795)	(5,976)
Share of results of associates		(158)	(138)	(484)	(588)
Loss before taxation		(17,613)	(22,088)	(54,722)	(62,865)
Taxation	5	—	—	—	—
Loss for the period		(17,613)	(22,088)	(54,722)	(62,865)
Attributable to:					
Equity holders of the Company		(17,613)	(22,088)	(54,722)	(62,865)
Minority interests		—	—	—	—
Net loss for the period		(17,613)	(22,088)	(54,722)	(62,865)
Loss per share — basic (HK\$)	6	(0.018)	(0.022)	(0.055)	(0.063)

Notes:

1. BASIS OF PREPARATION 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. 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

The 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 31 December		Nine months ended 31 December	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Newspapers advertising income	8,319	7,011	19,400	23,488
Sales of newspapers	11,483	13,746	33,670	41,684
Sales of books	1	113	245	481
Sales of goods, net of discounts and allowances	—	—	—	23
	19,803	20,870	53,315	65,676

Included in newspapers and magazines advertising income is approximately HK\$Nil (2005: HK\$810,000) in respect of barter transactions entered into during the period.

3. LOSS FROM OPERATIONS

	Three months ended 31 December		Nine months ended 31 December	
	2006	2005	2006	2005
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Loss from operations has been arrived at after charging (crediting):				
Depreciation and amortisation of property, plant and equipment	3,799	4,901	14,719	14,737
Cost of inventories charged as cost of sales	8,133	11,154	22,308	31,437
Interest income	(7)	—	(17)	(102)

4. FINANCE COSTS

	Three months ended 31 December		Nine months ended 31 December	
	2006	2005	2006	2005
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Interest on:				
Other loans	1,103	978	3,257	2,569
Finance leases	3	17	16	1,250
Loan from related companies	1,139	805	3,506	1,638
Amount due to a shareholder	5	5	16	16
Convertible notes	—	189	—	503
	2,250	1,994	6,795	5,976

5. 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.

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

6. LOSS PER SHARE

The calculation of the basic loss per share for the three months and nine months ended 31 December 2006 is based on the respective unaudited net loss of approximately HK\$17,613,000 and HK\$54,722,000 (2005: HK\$22,088,000 and HK\$62,865,000) and the weighted average number of 991,685,971 shares and 991,685,971 shares (2005: 991,685,971 shares and 991,685,971 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 since their exercise would result in a reduction in loss per share.

7. RESERVES

	Convertible note equity reserve	Shareholders' contributions	Share premium	Merger reserve	Exchange reserve	Distributable reserve	Fair value reserve	Investment revaluation reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2005	—	72,894	127,764	121,914	2,304	231,340	—	—	(666,832)	(110,616)
Opening adjustment under HKAS 39	—	—	—	—	—	—	—	(8,433)	8,433	—
Equity Reserve*	—	—	—	—	—	4,106	—	—	—	4,106
Revaluation of investment securities	—	—	—	—	—	—	—	(250)	—	(250)
Net loss for the period	—	—	—	—	—	—	—	—	(62,865)	(62,865)
At 31 December 2005	—	72,894	127,764	121,914	2,304	235,446	—	(8,683)	(721,264)	(169,625)
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	—	—	—	—	—	—	—	—	(54,722)	(54,722)
At 31 December 2006	16,432	72,894	127,764	121,914	2,347	231,340	(133)	—	(822,516)	(249,958)

* This equity reserve represents the equity component of convertible debt instruments.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 31 December 2006 (2005: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the nine months ended 31 December 2006, the Group recorded a total turnover of approximately HK\$53 million, representing a decrease of 18.82% as compared with approximately HK\$66 million of the same period of last year. The decrease was mainly attributable to decrease in revenue generated from advertising income and sales of newspapers. The loss attributable to equity holders of the Company for the nine months ended 31 December 2006 was approximately HK\$55 million, a decrease of about 12.95% as compared with approximately HK\$63 million of the same period of last year. Though the Company is still operating at a loss, it is narrowing the gap toward profitability.

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 31 December 2006, the Group employed 304 (2005: 357) 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 31 December 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' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2006, 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	Long position/ Short position	No. of Shares/ underlying Shares held	Approximate percentage of shareholding
QIN Hui	Held by controlled corporation	Long position	261,473,945 (Note 1)	26.37%
	Held by controlled corporation	Long position	1,000,000,000 (Note 2)	100.84%
Strategic Media International Limited	Beneficial owner	Long position	261,473,945 (Note 1)	26.37%
	Beneficial owner	Long position	1,000,000,000 (Note 2)	100.84%
LAM Ka Chung William	Held by controlled corporation	Long position	71,873,415 (Note 3)	7.25%

Name of shareholders	Capacity	Long position/ Short position	No. of Shares/ underlying Shares held	Approximate percentage of shareholding
LAM Wong Yuk Sin Mary	Held by controlled corporation	Long position	71,873,415 (Note 3)	7.25%
CHOI Koon Shum Jonathan	Held by controlled corporation	Long position	71,873,415 (Note 3)	7.25%
KWAN Wing Kum Janice	Held by spouse	Long position	71,873,415 (Note 3)	7.25%
Kingsway International Holdings Limited	Held by controlled corporation	Long position	71,873,415 (Note 3)	7.25%
Innovation Assets Limited	Held by controlled corporation	Long position	71,873,415 (Note 3)	7.25%
World Developments Limited	Held by controlled corporation	Long position	71,873,415 (Note 3)	7.25%
SW Kingsway Capital Holdings Limited	Held by controlled corporation	Long position	71,873,415 (Note 3)	7.25%
Kingsway China Holdings Limited	Held by controlled corporation	Long position	71,873,415 (Note 3)	7.25%
Festival Developments Limited	Held by controlled corporation	Long position	71,873,415 (Note 3)	7.25%
Kingsway Lion Spur Technology Limited	Beneficial owner	Long position	71,873,415 (Note 3)	7.25%
JIAO Erli	Beneficial owner	Long position	93,000,000 (Note 4)	9.38%
SINA Corporation	Beneficial owner	Long position	51,769,817 (Note 4)	5.22%
PENG Chi Hui	Beneficial owner	Long position	50,000,000 (Note 4)	5.04%

Notes:

1. Strategic Media International Limited is wholly owned by Mr. QIN Hui.
2. These 1,000,000,000 underlying Shares are derived from the 1.5% HK\$50,000,000 convertible note issued by the Company to Strategic Media International Limited on 30 April 2005 for a term of 2 years convertible into Shares at the conversion price of HK\$0.05 per Share.
3. 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.

4. 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 31 December 2006, 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 nine months ended 31 December 2006 is as follows:

	Date of grant	Exercisable period	Exercise price per share (HK\$)	Number of share options		
				Balance as at 1.4.2006	Lapsed upon resignation	Balance as at 31.12.2006
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 nine months ended 31 December 2006, no share option has been granted or 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 third quarterly results of the Group for the nine months ended 31 December 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 nine months ended 31 December 2006.

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

Hong Kong, 18 May 2007