



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



69 70th

2008 FIRST QUARTERLY REPORT

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. 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.

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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.

FIRST QUARTERLY RESULT FOR THE THREE MONTHS ENDED 30 JUNE 2008

The unaudited consolidated financial results of the Company and its subsidiaries (collectively the “Group”) for the three months ended 30 June 2008 together with the comparative unaudited figures for the corresponding period ended 30 June 2007 are as follows:

UNAUDITED CONSOLIDATED INCOME STATEMENT

For the three months ended 30 June 2008

	Notes	Three months ended 30 June	
		2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Turnover	3	8,962	15,134
Cost of Sales		(9,796)	(23,083)
Gross Loss		(834)	(7,949)
Other Revenue		149	511
Distribution Costs		(1,379)	(255)
Administrative and Other Operating Expenses		(5,533)	(11,871)
Loss from Operations		(7,597)	(19,564)
Finance Costs	4	(1,727)	(1,167)
Share of Results of Associates		–	(138)
Loss before Taxation		(9,324)	(20,869)
Income Tax	5	–	–
Loss for the Period	7	(9,324)	(20,869)
Attributable to			
– Equity Shareholders of the Company		(9,324)	(20,869)
Dividend	8	–	–
Loss Per Share	6		
– basic (HK cents)		(0.94)	(2.10)
– diluted (HK cents)		–	–

ACCOUNTING POLICIES AND EXPLANATORY NOTES

1. Basis of presentation and principal accounting policies

The Group's unaudited consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values. The Group's unaudited consolidated financial results have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the GEM Listing Rules and the Hong Kong Companies Ordinance. 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 2008. The accounts are unaudited but have been reviewed by the Company's audit committee.

2. Basis of preparation – material uncertainties relating to the going concern basis

The Group sustained an unaudited consolidated loss attributable to equity holders of the Company of HK\$9,324,000 for the three months ended 30 June 2008 (three months ended 30 June 2007: loss of HK\$20,869,000).

During the current and prior corresponding periods, the Group experienced financial difficulties and was unable to meet the payment obligations. Various parties took legal actions against the Group to recover amounts due to them.

In view of the liquidity problems faced by the Group, the directors planned to adopt the following proposed measures with the view to improve the Group's financial and cash flow position and to maintain the Group's existence on a going concern basis:

- (a) the directors have sought financial support from a substantial shareholder to provide adequate funds for the Group to meet its liabilities as they fall due, both present and future;
- (b) the directors have identified and have been negotiating with potential investors 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. 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 achieve the above and fail to continue in business as a going concern, adjustments would have to be made to restate the values of the assets to their immediate 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. Turnover

Turnover represents gross proceeds received and receivable derived from the sale of newspapers, magazines, books and advertisement income and is summarized as follows:

	Three months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Sale of newspapers, magazine and book	6,333	10,807
Newspapers and magazine advertising income	2,629	4,327
	8,962	15,134

4. Finance costs

	Three months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Interest on:		
Other loans	5	42
Finance leases	–	1
Advances from a substantial shareholder/ related company	1,722	1,124
	1,727	1,167

5. Income tax

No provision for Hong Kong Profits Tax has been made in the 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.

6. Loss per share

Basic

Basic loss per share is calculated by dividing the loss attributable to equity shareholders of the Company by weighted average number of ordinary shares in issue during the period:

	Three months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
Loss attributable to equity shareholders of the Company	(HK\$9,324,000)	(HK\$20,869,000)
Weighted average number of ordinary shares in issue	991,685,971	991,685,971
Basic loss per share	(HK\$0.0094)	(HK\$0.0210)

Diluted

Diluted loss per share for the current and prior corresponding periods has not been disclosed as the potential ordinary shares outstanding during both periods had an anti-dilutive effect on the basis loss for the current and prior corresponding periods.

7. Reserves

	Share premium	Convertible note equity reserve	Shareholder's contribution	Merger reserve	Exchange reserve	Distributable reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP								
At 1 April 2007 (Audited)	127,764	16,432	72,894	121,914	43	231,340	(872,639)	(302,252)
Loss for the period (Unaudited)	-	-	-	-	-	-	(20,869)	(20,869)
At 30 June 2007 (Unaudited)	<u>127,764</u>	<u>16,432</u>	<u>72,894</u>	<u>121,914</u>	<u>43</u>	<u>231,340</u>	<u>(893,508)</u>	<u>(323,121)</u>
At 1 April 2008 (Audited)	127,764	18,520	72,894	121,914	43	231,340	(923,304)	(350,829)
Loss for the period (Unaudited)	-	-	-	-	-	-	(9,324)	(9,324)
At 30 June 2008 (Unaudited)	<u>127,764</u>	<u>181,520</u>	<u>72,894</u>	<u>121,914</u>	<u>43</u>	<u>231,340</u>	<u>(932,628)</u>	<u>(360,153)</u>

8. Interim Dividend

The Directors resolved that no interim dividend be declared for the three months ended 30 June 2008 (three months ended 30 June 2007: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the three months ended 30 June 2008, the Group recorded a turnover of approximately HK\$8,962,000, representing a decline of 41% as compared with the turnover of approximately HK\$15,134,000 for the same period in last year. This was mainly due to the decrease in advertising income and sale of newspapers.

Loss for the three months ended 30 June 2008 was approximately HK\$9,324,000, representing a decrease of 55% as compared with the loss of approximately HK\$20,869,000 for the same period in last year.

The decrease in turnover was due to fierce market competition from the challenges of free-of-charge newspapers and other competitors. The results for the period under review were also affected by the high printing cost as a result of the continuous increase in printing charges paid to subcontractor.

Financial Resources

In the period under review, the shareholder's loan from Strategic Media International Limited ("SMIL"), which is incorporated in the British Virgin Islands and considered to be the parent and ultimate controlling party of the Group, was further increased by HK\$14,307,000 for general working capital of the Group. The increased amount was mainly used by Sing Pao Newspaper Company Limited, a wholly owned subsidiary of the Company, as operating expenses.

As at 30 June 2008, total outstanding shareholder's loan due to SMIL was amounted to HK\$109,663,000.

Capital Structure

There was no change in the capital structure of the Company during the period under review.

Number of Employees and Remuneration Policies

As at 30 June 2008, the Group employed 126 (30 June 2007: 277) employees. Employees' remuneration packages are determined by reference to market rate and individual performance.

Business Review and Prospects

Apart from the continuous efforts to monitor the market development, restructure and streamline the business operations as and when necessary so as to improve the current financial status of the Group and enhance the business performance, the management of the Company is actively looking for business opportunities to expand the Group's businesses as well as widening the income streams of the Group's business operations.

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 5.69 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 30 June 2008, 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.

Equity-Settled Share-based Transactions

On 15 January 2002, the Company adopted a share option scheme (the "Option Scheme") under which the board of directors of the Company 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 recognise 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 and such limit might be refreshed by the shareholders of the Company in general meetings. The Option Scheme commenced on 15 January 2002 and will end on the day immediately prior to the tenth anniversary of 15 January 2002. The share options vested immediately at the time when granted.

The Company did not grant any options under the Option Scheme during the three months ended 30 June 2008.

At 30 June 2008, the Company had no outstanding exercisable share option.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2008, the persons or corporations (not being a Directors of 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 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 (Note 1)	Approximate Percentage of shareholding
QIN Hui	Held by controlled Corporation	261,473,945 (L) (Note 2)	26.37%
	Held by controlled Corporation	1,000,000,000 (L) (Note 3)	100.84%
Strategic Media International Limited	Beneficial owner	261,473,945 (L) (Note 2)	26.37%
	Beneficial owner	1,000,000,000 (L) (Note 3)	100.84%
LAM Ka Chung William	Held by controlled Corporation	71,873,415 (L) (Note 4)	7.25%
LAM Wong Yuk Sin Mary	Held by controlled Corporation	71,873,415 (L) (Note 4)	7.25%
CHOI Koon Shum Jonathan	Held by controlled Corporation	71,873,415 (L) (Note 4)	7.25%
KWAN Wing Kum Janice	Held by spouse	71,873,415 (L) (Note 4)	7.25%

Name of shareholders	Capacity	No. of shares of The Company held (Note 1)	Approximate Percentage of shareholding
Kingsway International Holdings Limited	Held by controlled Corporation	71,873,415 (L) (Note 4)	7.25%
Innovation Assets Limited	Held by controlled Corporation	71,873,415 (L) (Note 4)	7.25%
World Developments Limited	Held by controlled Corporation	71,873,415 (L) (Note 4)	7.25%
SW Kingsway Capital Holdings Limited	Held by controlled Corporation	71,873,415 (L) (Note 4)	7.25%
Kingsway China Holdings Limited	Held by controlled Corporation	71,873,415 (L) (Note 4)	7.25%
Festival Developments Limited	Held by controlled Corporation	71,873,415 (L) (Note 4)	7.25%
Kingsway Lion Spur Technology Limited	Beneficial owner	71,873,415 (L) (Note 4)	7.25%
JIAO Erli	Beneficial owner	93,000,000 (L) (Note 5)	9.38%
SINA Corporation	Beneficial owner	51,769,817 (L) (Note 5)	5.22%
PENG Chi Hui	Beneficial owner	50,000,000 (L) (Note 5)	5.04%

Notes:

1. The letter 'L' represents the person's interests in the shares or underlying shares.
2. Strategic Media International Limited is wholly owned by Mr. QIN Hui.
3. 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 Shares. On 29 April 2007, the said term was extended to 31 March 2008. On 30 March 2008, the said extended term was further extended to 31 March 2010.
4. 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.

5. 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 2008, 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.

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 three months ended 30 June 2008.

ON-GOING FINANCIAL EXPOSURE

Loan Agreement with Billion Wealth Group Limited

On 23 April 2008, the Company entered into a loan agreement (the "Loan Agreement") with Billion Wealth Group Limited ("Billion Wealth") which is considered having no connected relationship with the Company, its subsidiaries, its directors, chief executives and substantial shareholders or its respective associates, whereby Billion Wealth agreed to extend to the Company a loan facility of up to an aggregate principal sum of HK\$60,000,000 (the "Loan"). The Loan is interest free and shall be used exclusively for general working capital, possible acquisitions, loan repayments and internal restructuring by the Company and its subsidiaries. The Company shall repay the Loan in full on the date falling on the expiry of 24 months from the date on which the Loan is made or any other later date as may be mutually agreed in writing by the Company and Billion Wealth.

Pledging of shares by the Substantial Shareholder

As a security for the Company's performance of its obligations under the Loan Agreement with Billion Wealth, SMIL, holding 261,473,945 shares (the "Shares"), representing approximately 26.37% of the entire issued share capital of the Company, executed a share charge dated 23 April 2008 in favour of Billion Wealth for charging the Shares in favour of Billion Wealth.

Assignment of Shareholder's Loan

As a security for the Company's performance of its repayment obligations under the Loan Agreement with Billion Wealth, on 23 April 2008, the Company entered into a deed of assignment with SMIL and Billion Wealth (the "Loan Assignment") whereby the Company acknowledged and consented to the assignment by SMIL to Billion Wealth of all the rights, title and benefits in a shareholder's loan in the sum of HK\$91,190,000 due to SMIL by the Company (the "Shareholders' Loan"). Following the entering into of the Loan Assignment, the Company is indebted to Billion Wealth of the Shareholder's Loan.

Assignment of Convertible Note

As a security for the Company's performance of its repayment obligations under the Loan Agreement with Billion Wealth, on 23 April 2008, the Company entered into a deed of assignment with SMIL and Billion Wealth (the "Convertible Note Assignment") whereby the Company acknowledged and consented to the assignment by SMIL to Billion Wealth of all the rights, title and benefits in the convertible note issued by the Company to SMIL as disclosed in the announcement of the Company dated 5 February 2005 in an aggregate outstanding principal amount of HK\$49,004,698 (the "Convertible Note") which entitles the holder thereof to convert into 980,093,960 shares of the Company. Following the entering into of the Convertible Note Assignment, Billion Wealth becomes a holder of the Convertible Note until full repayment of the Loan.

Loan Agreement with SMIL

The Company entered into a loan agreement with SMIL whereby SMIL agreed to extend to the Company a loan facility of up to an aggregate principal sum of HK\$40,000,000. The said loan is interest and security free and shall be used exclusively for general working capital, loan repayments and internal restructuring by the Company and its subsidiaries. The Company shall repay the said loan in full on the date falling on the expiry of 24 months from the date on which the said loan is entered into or any other later date as may be mutually agreed in writing by the Company and SMIL.

SMIL is a substantial shareholder of the Company. The making of the above loan by SMIL constitutes an exempt connected transaction for the Company pursuant to Rule 20.65(4) of the GEM Listing Rules.

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 three months ended 30 June 2008, the Company was 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 of Directors (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. The Group has commenced to review its internal control systems in September 2007 which is still in progress. The review is aimed at designing appropriate internal control policies and procedures for the Group with a view to ensure compliance of the GEM Listing Rules as well as the Principles and Code Provision (Code Provision C.2.1);
3. The Board has engaged an independent consultant to conduct a review of the internal control system of the Group and to assist the Group to design appropriate internal control policies and procedures with a view to ensure compliance of the GEM Listing Rules as well as the Principles and Code Provision (Code Provision C.2.1);
4. Non-executive Directors were not appointed for a specific term but were subject to retirement at the first general meeting after their appointment and thereafter to retirement by rotation at least once every three years and in accordance with the articles of association of the Company (Code Provision A.4.1);
5. 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 three months ended 30 June 2008.

REVIEW OF THE FIRST QUARTERLY REPORT

The Company has established an audit committee (the “Audit Committee”) with written terms of reference. Currently, the Audit Committee comprises five independent non-executive Directors, namely Mr. YAN Chun, Mr. JIANG Jin Sheng, Mr. KONG Tsz Wing, Mr. WONG Ching Yip and Mr. HUNG Yat Ming. Mr. SHI Bin Hai resigned on 13 August 2008. Both Mr. WONG Ching Yip and Mr. HUNG Yat Ming were appointed on 3 September 2008.

The Group’s financial results and information therein for the three months ended 30 June 2008 have not been reviewed by the external auditor. Instead, the unaudited financial results for the three months ended 30 June 2008 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

At the request of the Company, trading in the Company’s Shares was suspended from 11:04 a.m. on 28 April 2005 and will remain suspended until further notice.

By Order of the Board
SMI Publishing Group Limited
WANG Fei
Executive Director

Hong Kong, 20 February 2009