



*First Quarterly Report* **2009**



**星美出版集團有限公司**  
S.M. PUBLISHING GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)  
Stock Code: 8010

## **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.**

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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 2009

The board of Directors (the “Board”) announces the unaudited consolidated financial results of the Company and its subsidiaries (collectively the “Group”) for the three months ended 30 June 2009 together with the comparative unaudited figures for the corresponding period ended 30 June 2008 as follows:

### UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

*For the three months ended 30 June 2009*

	Notes	Three months ended 30 June	
		2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Turnover	4	8,773	8,962
Cost of sales		(12,906)	(9,796)
Gross loss		(4,133)	(834)
Other revenue		1,049	149
Distribution costs		(5,184)	(1,379)
Administrative and other operating expenses		(4,518)	(5,533)
Loss from operations	5	(12,786)	(7,597)
Finance costs	6	(4,537)	(1,727)
Loss before taxation		(17,323)	(9,324)
Income tax	7	478	–
Loss for the period		(16,845)	(9,324)
Attributable to – equity shareholders of the Company		(16,845)	(9,324)
Dividend	10	–	–
Loss per share	8	(1.70)	(0.94)
– basic and diluted (HK cents)			

**UNAUDITED CONDENSED STATEMENT OF COMPREHENSIVE INCOME***For the three months ended 30 June 2009*

	<b>Three months ended 30 June</b>	
	<b>2009</b>	2008
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Loss for the period	<b>(16,845)</b>	(9,324)
Other comprehensive loss	<u>–</u>	<u>–</u>
Total comprehensive loss for the period	<b>(16,845)</b>	(9,324)
Total comprehensive loss for the period attributable to equity shareholders of the Company	<b>(16,845)</b>	(9,324)

## ACCOUNTING POLICIES AND EXPLANATORY NOTES

### 1. Basis of presentation and principal accounting policies

The unaudited condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements the GEM Rules and with the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The condensed consolidated financial statements should be read in conjunction with the 2009 audited financial statements. The accounting policies and basis of preparation used in the preparation of the condensed consolidated financial statements are consistent with those applied in the Company’s audited financial statements for the year ended 31 March 2009. The condensed consolidated financial statements have been prepared on the historical cost basis.

### 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\$16,845,000 for the three months ended 30 June 2009 (three months ended 30 June 2008: loss of HK\$9,324,000).

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 plan to see financial support from potential investors 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. Significant accounting policies

#### ***Adoption of New or Amended HKFRSs***

During the period, the Group; has applied for the first time the following new and revised HKFRSs issued by the HKICPA which are relevant to and effective for the Group's financial statements for the annual financial period beginning on 1 April 2009.

HKSA 1 (Revised 2007)	Presentation of Financial Statements
HKSA 23 (Revised 2007)	Borrowing Costs
HKFRS 1 and HKAS 27 (Amendments)	Cost of an investment in a Subsidiary, Jointly controlled Entity or Associate
HKFRS 2 (Amendment)	Share-based Payment-Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – Int 9 and HKAS 39 (Amendments)	Reassessment of Embedded Derivatives
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2008

Except as described below, the same accounting policies, presentation and methods of computation have been followed in these unaudited condensed consolidated financial statements as were applied in the financial statements of the Group for the year ended 31 March 2009.

#### ***HKAS 1 (Revised 2007) Presentation of Financial Statements***

*(effective for annual periods beginning on or after 1 January 2009)*

HKAS 1 (revised 2007) has introduced a number of terminology changes (including revised titles for the condensed consolidated financial statements) and has resulted in a number of changes in presentation and disclosure. However, HKAS 1 (revised 2007) has had no impact on the reported results or financial position of the Group.

**HKFRS 8 Operating Segments**

*(effective for annual periods beginning on or after 1 January 2009)*

HKFRS 8 "Operating Segments" replaces HKAS 14 "Segment Reporting" and adopts a full management approach to identifying, measuring and disclosing the results of its operating segments. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. Since the Group's operating segments reported to the chief operating decision-maker as required by HKFRS 8 are the same as the business segments reported in accordance with the predecessor standard (HKAS 14 "Segment Reporting"), the adoption of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments (see note 5).

**Impact of New and Revised HKFRSs which are Issued but Not Effective**

The Group had not early adopted the following new and revised HKFRSs that have been issued but are not yet effective in the Period.

HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>1</sup>
HKAS 28	Investments in Associates – Consequential Amendments Arising from Amendments to HKFRS 3 <sup>1</sup>
HKAS 31	Interests in Joint Ventures – Consequential Amendments Arising from Amendments to HKFRS 3 <sup>1</sup>
HKAS 39 (Amendment)	Financial Statements: Recognition and Measurement – Eligible Hedged Items <sup>1</sup>
HKFRS 1 (Revised)	First-time adoption of HKFRSs <sup>1</sup>
HKFRS 1 (Amendments)	First-time adoption of HKFRSs – Additional Exemptions for First-time Adopters <sup>2</sup>
HKFRS 2 (Amendments)	Share-based Payment – Group Cash-settled Share-based Payment Transactions <sup>2</sup>
HKFRS 3 (Revised)	Business Combinations <sup>1</sup>
HKFRS 5 (Amendments)	Non-current Assets Held for Sale and Discontinued Operations <sup>1</sup>
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners <sup>1</sup>
HK(IFRIC) – Int 18	Transfers of Assets from Customers <sup>3</sup>
HKFRSs (Amendments)	Annual Improvements to HKFRS 2009 <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2010

<sup>3</sup> Effective for transfers of assets from customers received on or after 1 July 2009

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate

The Group is in the process of assessing the impact of these new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on its results of operations and financial position.

#### 4. 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	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Sale of newspapers, magazine and book	4,870	6,333
Newspapers and magazine advertising income	3,903	2,629
	<b>8,773</b>	<b>8,962</b>

#### 5. Loss from operations

Loss from operations is arrived at after charging:

	Three months ended 30 June	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Minimum payment under operating leases	1,155	1,371
Employee benefit expenses (including directors' emoluments)		
– salaries, wages and other benefit	7,725	5,175
– contributions to defined contribution retirement scheme	304	226
Depreciation and amortisation of property, plant and equipments	315	404

#### 6. Finance costs

	Three months ended 30 June	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Interest on other borrowings wholly repayable within five years	2,277	5
Interest on other borrowings wholly repayable after five years	725	1,722
Effective interest expense on convertible note	1,535	–
	<b>4,537</b>	<b>1,727</b>



## 7. Income tax

Income tax charge/(credit) in the consolidated income statement represents:

	<b>Three months ended 30 June</b>	
	<b>2009</b>	2008
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Deferred tax:		
Current period	<b>(478)</b>	—
	<b>(478)</b>	—

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

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.

## 8. Loss per share

### *Basic*

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

	<b>Three months ended 30 June</b>	
	<b>2009</b>	2008
	<b>(Unaudited)</b>	(Unaudited)
Loss attributable to equity shareholders of the Company (HK\$'000)	<b>(16,845)</b>	(9,324)
Weighted average number of ordinary shares in issue	<b>991,685,971</b>	991,685,971
Basic loss per share (HK cents)	<b>(1.70)</b>	(0.94)

### *Diluted*

Diluted loss per share for the current and prior corresponding periods is the same as the basic loss per share as the potential ordinary shares outstanding during both periods had an anti-dilutive effect on the basic loss per share for the current and prior corresponding periods.

## 9. 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 2008 (Audited)	127,764	18,520	72,894	121,914	43	231,340	(923,304)	(350,829)
Total comprehensive loss for the period (Unaudited)	-	-	-	-	-	-	(9,324)	(9,324)
At 30 June 2008 (Unaudited)	<u>127,764</u>	<u>18,520</u>	<u>72,894</u>	<u>121,914</u>	<u>43</u>	<u>231,340</u>	<u>(932,628)</u>	<u>(360,153)</u>
At 1 April 2009 (Audited)	127,764	18,520	72,894	-	43	231,340	(865,850)	(415,289)
Total comprehensive loss for the period (Unaudited)	-	-	-	-	-	-	(16,845)	(16,845)
At 30 June 2009 (Unaudited)	<u>127,764</u>	<u>18,520</u>	<u>72,894</u>	<u>-</u>	<u>43</u>	<u>231,340</u>	<u>(882,695)</u>	<u>(432,134)</u>

## 10. Dividend

The Directors resolved that no interim dividend be declared for the three months ended 30 June 2009 (three months ended 30 June 2008: Nil).

## 11. Post balance sheet event

- (a) Subsequent to the balance sheet date, in November 2009 to January 2010, part of the convertible note of nominal values of HK\$48,000,000 were converted by certain note-holders at the conversion price of HK\$0.05 per share, resulting in the issue of, in aggregate, 960,000,000 new ordinary shares of HK\$0.05 each of the Company.
- (b) Subsequent to the balance sheet date, on 17 November 2009, a winding-up petition was filed by an individual against the Company in the High Court in relation to the unsettled loan amount of approximately HK\$1,694,000 for the period from July 2007 to October 2009. The winding-up petition was dismissed in the High Court on 25 January 2010.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

For the three months ended 30 June 2009, the Group recorded a turnover of approximately HK\$8,773,000, representing a decrease of 2% as compared with the turnover of approximately HK\$8,962,000 for the same period last year. This was mainly due to the fact that the increase in advertising income could not off-set the decrease in sale of newspapers.

Loss for the three months ended 30 June 2009 was approximately HK\$16,845,000, representing an increase in loss of 81% as compared with the loss of approximately HK\$9,324,000 for the same period last year.

The decrease in turnover was due to fierce market competition from the challenges of free-of-charge newspapers and other competitors. The increase in loss for the period under review was due to the high printing cost as a result of the continuous increase in printing charges paid to subcontractor, the increase in distribution costs arising from the Group's 70th Anniversary Celebration in May 2009 and the increase in finance costs.

### Financial Resources

On 20 May 2009, the Company entered into a loan agreement with Billion Wealth Group Limited ("Billion Wealth") for an additional loan facility of HK\$50,000,000 granted from Billion Wealth to the Company. During the period under review, approximately HK\$16,274,000 had been drawn down from the loan facility granted from Billion Wealth. At 30 June 2009, the unutilised loan facilities granted from Billion Wealth amounted to approximately HK\$48,476,000.

The increased loan amounts were mainly used by Sing Pao Newspaper Company Limited, a wholly-owned subsidiary of the Company, as operating expenses.

### 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 2009, the Group employed 176 (30 June 2008: 126) employees. Employees' remuneration packages are determined by reference to market rate and individual performance.

### **Business Review and Prospects**

To save the printing cost and to capture the opportunities arising from the increasing in circulations of and the demand for printing of free-of-charge newspapers, the Group has the intention to re-establish its printing factory and re-operate its printing machines from the third quarter of year 2010.

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 2009, 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 had not granted any options under the Option Scheme during the three months ended 30 June 2009.

At 30 June 2009, the Company had no outstanding exercisable share option.

### SUBSTANTIAL SHAREHOLDERS' INTERESTS AND POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2009, the persons or corporations (not being a Director or 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	Long (L)/ Short (S) position	Approximate percentage of shareholding
QIN Hui	Held by controlled Corporation	261,473,945 (Note 1)	(S)	26.37%
Strategic Media International Limited	Beneficial owner	261,473,945 (Note 1)	(S)	26.37%

<b>Name of shareholders</b>	<b>Capacity</b>	<b>No. of shares of the Company held</b>	<b>Long (L)/ Short (S) position</b>	<b>Approximate percentage of shareholding</b>
YEUNG Ka Sing, Carson	Held by controlled Corporation	1,241,567,905 (Note 2)	(L)	125.20%
Billion Wealth Group Limited	Beneficial owner	1,241,567,905 (Note 2)	(L)	125.20%
LAM Ka Chung, William	Held by controlled Corporation	70,533,415 (Note 3)	(L)	7.11%
LAM Wong Yuk Sin, Mary	Held by controlled Corporation	70,533,415 (Note 3)	(L)	7.11%
CHOI Koon Shum, Jonathan	Held by controlled Corporation	70,533,415 (Note 3)	(L)	7.11%
KWAN Wing Kum, Janice	Held by spouse	70,533,415 (Note 3)	(L)	7.11%
Kingsway International Holdings Limited	Held by controlled Corporation	70,533,415 (Note 3)	(L)	7.11%
Innovation Assets Limited	Held by controlled Corporation	70,533,415 (Note 3)	(L)	7.11%
World Developments Limited	Held by controlled Corporation	70,533,415 (Note 3)	(L)	7.11%
SW Kingsway Capital Holdings Limited	Held by controlled Corporation	70,533,415 (Note 3)	(L)	7.11%
Festival Developments Limited	Held by controlled Corporation	70,533,415 (Note 3)	(L)	7.11%
Kingsway Lion Spur Technology Limited	Beneficial owner	70,533,415 (Note 3)	(L)	7.11%

## Notes:

1. Strategic Media International Limited ("SMIL") is wholly owned by Mr. QIN Hui. Pursuant to a share charge agreement dated 23 April 2008, entered into between Billion Wealth Group Limited ("Billion Wealth") and SMIL, these shares were pledged to Billion Wealth as security for Billion Wealth's loan facility of HK\$60,000,000 granted to the Group.
2. 980,093,960 underlying shares are derived from the 1.5% HK\$49,004,698 convertible note issued by the Company to SMIL on 30 April 2005 for a term of 2 years convertible into shares at the conversion price of HK\$0.05 per share ("the Notes"). On 19 November 2007, SMIL extended the maturity date of the Notes from 29 April 2007 to 31 March 2009. Further on 31 March 2008, SMIL extended the maturity date of the Notes to 31 March 2010. On 23 April 2008, SMIL assigned its interest on the notes to Billion Wealth, which is wholly owned by Mr. YEUNG Ka Sing, Carson.

261,473,945 underlying shares are shares held by SMIL but pledged to Billion Wealth as security for Billion Wealth's loan facility of HK\$60,000,000 granted to the Group according to the share charge agreement entered into between SMIL and Billion Wealth on 23 April 2008.

3. Kingsway Lion Spur Technology Limited ("KLST") is a wholly-owned subsidiary of Festival Developments Limited ("FDL"). FDL 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, SWK, WDL, IAL and KIH are deemed to be interested in all the shares in which KLST is interested.

Mr. LAM Ka Chung, William ("Mr. Lam") and Madam LAM Wong Yuk Sin, Mary ("Madam Lam"), 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 ("Mr. Choi") 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 2009, 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 2009.

## **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 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.

On 20 May 2009, the Company entered into another loan agreement with Billion Wealth for an additional loan facility of HK\$50,000,000 granted by Billion Wealth to the Company, with similar terms of the loan facilities of HK\$60,000,000 granted from Billion Wealth to the Company on 23 April 2008.

### **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.

**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 2009, 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 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);

3. 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); and
4. 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 2009.

### **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 all of all Independent non-executive Directors, namely, Mr. HUNG Yat Ming (as the chairman of the Audit Committee), Mr. WONG Ching Yip, Mr. KONG Tze Wing, Mr. PAN Chik and Mr. WONG Ka Chun, Carson.

The Group's financial results and information therein for the three months ended 30 June 2009 have not been reviewed by the external auditor. Instead, the unaudited financial results for the three months ended 30 June 2009 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**  
**WONG Yue Kwan, Alan**  
*Executive Director*

Hong Kong, 29 January 2010