



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

First Quarterly Report 2011

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

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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 2011

The board of directors (the "Board") herewith announces the unaudited consolidated financial results of the Company and its subsidiaries (collectively the "Group") for the three months ended 30 June 2011, together with the comparative unaudited figures for the corresponding period ended 30 June 2010 as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 30 June 2011

		Three months ended 30 June	
		2011	2010
	Notes	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Turnover	4	10,486	8,523
Cost of sales		(13,995)	(13,301)
Gross loss		(3,509)	(4,778)
Other revenue		661	179
Distribution costs		(214)	(264)
Administrative and other operating expenses		(5,548)	(4,615)
Loss from operations	5	(8,610)	(9,478)
Finance costs	6	(4,485)	(4,068)
Loss before income taxation		(13,095)	(13,546)
Income tax	7	–	9
Loss for the period		(13,095)	(13,537)
Total comprehensive income for the period attributable to owners of the Company		(13,095)	(13,537)
Dividend	10	–	–
Loss per share – basic and diluted (HK cents)	8	(0.66)	(0.69)

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 of the GEM Listing Rules and with the Hong Kong Accounting Standards ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

These condensed consolidated financial statements should be read in conjunction with the 2011 audited financial statements of the Company. The accounting policies and basis of preparation used in the preparation of these condensed consolidated financial statements are consistent with those applied in the Company's audited financial statements for the year ended 31 March 2011. These 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 owners of the Company of approximately HK\$13,095,000 for the three months ended 30 June 2011 (three months ended 30 June 2010: loss of approximately HK\$13,537,000).

During the current and prior periods, the Group experienced financial difficulties, especially, in the past periods, the Group was unable to meet the payment obligations and 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 seek financial support from potential investors and financial institutions 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

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 April 2011. HKFRSs comprise Hong Kong Financial Reporting Standards, HKAS and Interpretations. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current period and prior years.

The Group has not applied those new and revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of those new and revised HKFRSs but is not yet in a position to state whether those new and revised HKFRSs would have a material impact on its results of operations and financial position.

4. Turnover and segment information

The Group determines its operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions.

The Group operates one business segment, which is the publication of newspaper and books and therefore, no further business segment analysis is presented.

All operating assets and operations of the Group during the periods ended 30 June 2011 and 2010 were substantially located and carried out in Hong Kong.

The Group's revenue from external customers is principally derived from its operations in Hong Kong. The Group's customer base is diversified and there was no customer with whom transactions have exceeded 10% of the Group's revenue.

Turnover represents gross proceeds received and receivable derived from the sale of newspapers and books and advertisement income arising therefrom.

5. Loss from operations

Loss from operations is arrived at after charging:

	Three months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Minimum payment under operating leases	1,376	907
Employee benefit expenses (including directors' emoluments)		
– salaries, wages and other benefit	6,979	7,712
– contributions to defined contribution retirement scheme	295	272
Depreciation and amortization of property, plant and equipments	555	201

6. Finance costs

	Three months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Imputed interest expenses on other borrowings wholly repayable within five years	1,089	600
Interest on other borrowings wholly repayable within five years	2,671	2,657
Interest on other borrowings wholly repayable after five years	725	725
Effective interest expense on convertible notes	–	86
	4,485	4,068

7. Income tax

Income tax credit in the consolidated statement of comprehensive income represents:

	Three months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Deferred tax:		
Current period	-	(9)
	-	(9)

Deferred taxation in respect of unused tax losses for both 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 condensed consolidated 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 owners of the Company by weighted average number of ordinary shares in issue during the period:

	Three months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
Loss attributable to owners of the Company (HK\$'000)	(13,095)	(13,537)
Weighted average number of ordinary shares in issue	1,971,685,971	1,965,531,971
Basic loss per share (HK cents)	(0.66)	(0.69)

Diluted

Diluted loss per share for the current and prior corresponding periods is the same as the respective basic loss per share as there were no potential ordinary shares outstanding at the end of the current and prior corresponding periods.

9. Reserves

	Share premium HK\$'000	Convertible note equity reserve HK\$'000	Shareholders' contributions HK\$'000	Exchange reserve HK\$'000	Distributable reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2010 (Audited)	140,573	741	72,894	43	231,340	(929,593)	(484,002)
Total comprehensive income for the period (Unaudited)	-	-	-	-	-	(13,537)	(13,537)
Adjustment for conversion of convertible note (Unaudited)	371	(371)	-	-	-	-	-
Adjustment for expiration of convertible note (Unaudited)	-	(370)	-	-	-	370	-
At 30 June 2010 (Unaudited)	<u>140,944</u>	<u>-</u>	<u>72,894</u>	<u>43</u>	<u>231,340</u>	<u>(942,760)</u>	<u>(497,539)</u>
At 1 April 2011 (Audited)	140,943	-	80,744	43	231,340	(979,538)	(526,468)
Total comprehensive income for the period (Unaudited)	-	-	-	-	-	(13,095)	(13,095)
Capital portion of advance from substantial shareholder (Unaudited)	-	-	260	-	-	-	260
At 30 June 2011 (Unaudited)	<u>140,943</u>	<u>-</u>	<u>81,004</u>	<u>43</u>	<u>231,340</u>	<u>(992,633)</u>	<u>(539,303)</u>

10. Dividend

The Directors resolved that no interim dividend be declared for the three months ended 30 June 2011 (three months ended 30 June 2010: Nil).

11. Contingent liabilities

At 30 June 2011, there were several cases brought forward from prior periods related to defamation and infringement of copyright that remained unresolved. All of them were brought against Sing Pao Newspaper Company Limited ("SPNCL") a wholly-owned subsidiary of the Group. Court judgments have not been stated and the amounts claimed were in aggregate approximately HK\$517,000. In the Directors' opinion, the liabilities are unlikely to crystallize and no provision had therefore been made in respect of these claims.

In July 2007, a licensee of SPNCL who acted as the defendant in a legal claim in relation to an action for copyright infringement issued a third party notice to SPNCL. The defendant claimed against SPNCL for indemnity against the plaintiff's claims and the cost of the action or contribution in respect of the plaintiff's claims. A defense was filed by the Group in March 2008 denying all allegations against the Group. Judgments have not been stated up to the date of this report. In the Directors' opinion, the liabilities are unlikely to crystallize and no provision had therefore been made in respect of the claim.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the three months ended 30 June 2011, the Group recorded a turnover of approximately HK\$10,486,000, representing an increase of approximately 23.0% as compared with the turnover of approximately HK\$8,523,000 for the same period last year. This was mainly due to the increase in advertising income from the publication of Sing Pao Daily.

Loss attributable to shareholders of the Company for the three months ended 30 June 2011 was approximately HK\$13,095,000, representing a moderate decrease of approximately 3.3% as compared with the loss of approximately HK\$13,537,000 for the same period last year.

Financial Resources and Liquidity

During the period under review, additional loan amounts of approximately HK\$2,743,000 had been drawn down from the loan facilities granted from Billion Wealth Group Limited ("Billion Wealth"). At 30 June 2011, total unutilized loan facilities granted from Billion Wealth amounted to approximately HK\$20,455,000.

During the period under review, additional loan amounting to HK\$2,600,000 from an independent third party was granted to the Company, such loan was unsecured with interest rate at 5% per annum and repayable within one year.

As at 30 June 2011, no assets of the Group were pledged for loan facilities granted to the Group.

Capital Structure

As at 30 June 2011, the Company had a total of 1,971,685,971 ordinary shares in issue with par value of HK\$0.05 each.

Number of Employees and Remuneration Policies

As at 30 June 2011, the Group employed 168 (as at 30 June 2010: 180) employees. Employees' remuneration packages are determined by reference to market rate and individual performance.

Business Review and Prospects

The Group's newspaper publication business has been continuously facing the fierce competition from other competitors in the newspaper publication market, the market situation will be even worse in the light of the increasing number of free-of-charge newspapers emerging in the market recently. The Group's working capital requirements rely mainly on the continuing financial support from the Company's substantial shareholder, Billion Wealth during the past and current periods.

In view of the Group's existing situation, new expertise, who have strong backgrounds in the fields of media industry, financing and corporate management, have been invited to the Board to strengthen the Group's existing business and to explore new business opportunities emerging from time to time in the media industry, especially in the Great China region. To achieve the goals, the new management team will strive for inviting potential strategic partners and investors joining the Group and raising new funds to support the Group's financial needs arising from the expansion.

On 27 May 2011, the Company was informed by the Stock Exchange that the GEM Listing Committee has decided to proceed to cancellation of the Company's listing status pursuant to Rule 9.15 of the GEM Listing Rules. The Company is required to submit a viable resumption proposal within six months from 27 May 2011 to the Stock Exchange to demonstrate that the Company has a sufficient level of operations and management expertise on the business pursuits of the Company to warrant the continued listing of the Company's securities on the Stock Exchange. After accessing the progress of the various measures taken by the management, the Board is confident to come up a viable resumption proposal before the deadline as set out by the Stock Exchange.

In all the time, the Group will continue to monitor and control its costs carefully to ensure the efficiency of the use of existing resources. Even so, the Group will never falter in its missions, to deliver truth and fair information with the highest standards of quality and professionalism to their readers.

DIRECTORS' 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 2011, 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 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 recognize 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 of the Company 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 2011.

At 30 June 2011, the Company had no outstanding exercisable share option.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2011, 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
Yeung Ka Sing, Carson	Held by controlled Corporation	261,473,945 (Note)	(L)	13.26%
Billion Wealth	Beneficial owner	261,473,945 (Note)	(L)	13.26%

Note: The shares were taken over by Billion Wealth from Strategic Media International Limited ("SMIL") by the execution of a share charge on 12 May 2010, pursuant to a share charge agreement dated 23 April 2008 entered between Billion Wealth and SMIL in relation with a loan facility of HK\$60,000,000 granted by Billion Wealth to the Company. The entire issued share capital of Billion Wealth is wholly owned by Mr. Yeung Ka Sing, Carson.

Save as disclosed above, as at 30 June 2011, 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 2011.

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 2011, 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. 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 endeavors to give 14 days’ advanced notifications of the Board meeting to the extent practicable (Code Provisions A.1.3);
2. 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
3. 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 2011.

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 of all independent non-executive directors, namely, Mr. Liu Shang Ping (as the chairman of the Audit Committee), Mr. Kong Tze Wing and Mr. Xu Wei.

Mr. Liu Shang Ping and Mr. Xu Wei have been appointed as independent non-executive directors of the Company with effect from 5 August 2011 and 15 August 2011, respectively, to replace Mr. Hung Yat Ming (resigned as independent non-executive director of the Company on 5 August 2011) and Mr. Pan Chik (resigned as independent non-executive director of the Company on 15 August 2011) as members of the Audit Committee.

The Group's financial results and information therein for the three months ended 30 June 2011 have not been reviewed by the external auditor. Instead, the unaudited financial results for the three months ended 30 June 2011 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

Suspension in the trading of the shares of the Company since 28 April 2005 will continue until the Company submits a viable resumption proposal.

By Order of the Board
SMI Publishing Group Limited
Tian Bing Xin
Executive Director

Hong Kong, 15 August 2011