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SMI Publishing Group Limited

星美出版集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8010)

CLARIFICATION ANNOUNCEMENT IN RESPECT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2011

Reference is made to the annual result announcement of SMI Publishing Group Limited dated 28 June 2011 in relation to the annual results of the Company and its subsidiaries for the year ended 31 March 2011.

This announcement is made to clarify and supplement certain information contained in the Annual Results Announcement.

Reference is made to the announcement of SMI Publishing Group Limited (the “Company”) dated 28 June 2011 in relation to the annual results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 March 2011 (the “Annual Results Announcement”). Terms used in this announcement shall have the same meanings as those defined in the Annual Results Announcement unless the contexts herein require otherwise.

This announcement is made to clarify and supplement certain information contained in the Annual Results Announcement.

After publication of the Annual Results Announcement, of which the contents were previously reviewed by the board of directors of the Company (the “Board”) and the figures were compared by the Company’s auditor, BDO Limited (“BDO”) to the amount set out in the Group’s draft financial statements and the amounts were found to be in agreement, the Company was informed by BDO that additional procedures are required to be performed, including provision of additional supporting documentation (“Additional Information”), for finalizing the Independent Auditor’s Report to the shareholders of the Company for the year ended 31 March 2011 (the “Auditor’s Report”).

On 29 June 2011, an incident relating to a shareholder of Billion Wealth Group Limited (“Billion Wealth”), being a creditor of the Company which could have materially affected the financial statements of the Group and the Company was reported by the media. Because of the incident, Billion Wealth may be unable to provide further financial support to the Company. In view of the liquidity problems faced by the Group, the Directors have adopted or plan to adopt certain measures in order to improve the Group’s financial and cash flow positions and to maintain the Group as a going concern including but not limited to obtaining a loan facility of HK\$100,000,000 from a company owned by an executive director (the “Lender”).

The Company wishes to state that the Board has made continuous effort in cooperating with BDO to provide adequate information, explanation, documents and/or response as requested by BDO in order for them to perform the audit procedures. The Company endeavours to provide assurance to BDO that they are fully aware of all significant matters that might be identified in the audit process. However, the Company is unable to obtain sufficient information from the Lender to satisfy BDO that the Lender is able to provide the loan facility. Accordingly, BDO are unable to determine whether the underlying assumptions of the cash flow forecast of the Group are valid and therefore whether it is appropriate to use the going concern basis in preparing the consolidated financial statements.

Since BDO was unable to obtain the Additional Information in regard to the financial support obtained by the Company, BDO issued a qualified opinion in the Auditor’s Report.

CLARIFICATION:

1. The following paragraph should be included at the end of Note 1 “General information” on page 5 of the Annual Results Announcement:

“On 29 June 2011, an incident relating to a shareholder of Billion Wealth which could have materially affected the financial statements of the Group and the Company was reported by the media. Revisions have subsequently been made by the Directors to the disclosures in the consolidated financial information as at 31 March 2011 which was previously included in the preliminary result announcement on 28 June 2011. In preparing the consolidated financial statements to reflect how the Directors have addressed the possible financial effects of this incident (*see Note 2*).”

2. On pages 5 and 6 of the Annual Results Announcement, Note 2 “Basis of presentation” should be replaced as follows:

“Basis of preparation:

The Group sustained consolidated loss for the year of approximately HK\$50,316,000 (2010: approximately HK\$63,743,000) for the year ended 31 March 2011. At 31 March 2011, the Group had consolidated net current liabilities and net liabilities of approximately HK\$97,680,000 (2010: approximately HK\$93,588,000) and HK\$427,884,000 (2010: approximately HK\$386,418,000), respectively. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group’s ability to continue as a going concern.

In the prior year, the Group was financially supported by Billion Wealth. Subsequent to the reporting period, the shareholder of Billion Wealth reported that he may be unable to deal with the loans granted by Billion Wealth to the Group. In addition, he may also be unable to offer any new financial support to the Group. In order to address this situation, management has successfully obtained financial support from other new investor as outlined below.

In view of the liquidity problems faced by the Group, the Directors have adopted or plan to adopt the following measures in order to improve the Group’s financial and cash flow positions and to maintain the Group as a going concern:

- (a) a loan facility of HK\$100,000,000 was granted by a company owned by an executive director (the “Lender”). The loan facility granted is mainly for the Group’s working capital at present. The Directors plan to seek further financial support, when necessary, from the Lender to provide adequate funds for the Group to meet its liabilities as when they fall due in the future;
- (b) the Directors have identified and have been negotiating with potential investor 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. The Directors are of the opinion that the above measures will be successfully implemented. 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 successfully implement the above measures and continue as a going concern, it may be unable to continue realising its assets and discharging its liabilities in the normal course of business. Adjustments would have to be made to restate the values of the assets to their 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. The following paragraph should replace the last paragraph in Note 17 “Events after reporting period” on page 18 of the Annual Results Announcement:

“The Company is required to submit a viable resumption proposal within six months from the date of the Letter 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. On 11 November 2011, a resumption proposal was submitted to the Stock Exchange.”

4. The following paragraphs should be added at the end of Note 17 “Events after reporting period” on page 18 of the Annual Results Announcement:

“As at the end of the reporting period, management prepaid certain costs on leasehold improvement, purchases of equipment and spare parts to start up again the Group’s printing plant with the Group’s idle printing machines. Subsequent to the end of the reporting period, management had changed its plan to dispose of the printing machines in order to reduce the Group’s long-term capital commitment. On 9 September 2011, the Group had nominated an agent to dispose the Group’s printing machines which were fully impaired in the prior years. In October 2011, the Group disposed the printing machines and equipment to an independent third party in consideration of HK\$3,600,000. The consideration was fully paid in October 2011. With reference to prepayment made as at the end of the reporting period, the Group estimates that a loss of approximately HK\$3,193,000, in net, on impairment of deposit and prepayment and reversal of impairment loss on property, plant and equipment is to be incurred. The financial impact for the year ending 31 March 2012 may change as further prepayment had been made subsequent to the end of the reporting period.

On 10 November 2011, a loan agreement was entered into between the Group and the Lender, whereas the Lender would provide a loan facility up to an aggregate principal amount of not exceeding HK\$100,000,000 to the Group, mainly for its working capital needs.”

5. On pages 19 and 20 of the Annual Results Announcement, “AN EXTRACT OF AUDITOR’S REPORT” should be replaced with the below:

“EXTRACT OF THE AUDITOR’S REPORT

Basis for disclaimer of opinion

(A) Scope limitation – borrowings under dispute

Included in the borrowings of the Group and of the Company as at 31 March 2011 are borrowings of approximately HK\$23,367,000 and HK\$13,910,000; and as at 31 March 2010 were borrowings of approximately HK\$23,090,000 and HK\$13,691,000, respectively due to several parties. Included in the finance costs in the statements of comprehensive income of the Group and the Company for the year ended 31 March 2011 are accrued interest expenses of approximately HK\$277,000 and HK\$219,000; and for the year ended 31 March 2010 were accrued interest expenses of approximately HK\$277,000 and HK\$219,000, respectively based on the amounts due and the applicable interest rates. As discussed in Note 24(b) to the consolidated financial statements, the Group and the Company are in dispute with these parties over these balances. Management makes no representation on the accuracy of these borrowings as there was either no formal agreement entered or there was no evidence of such arrangement in the past. We were unable either to obtain direct confirmations from these parties or other supporting evidence to satisfy ourselves as to whether the borrowings and interest expenses are free from material misstatement because these lenders were either no longer in contact with the Group or did not reply to our confirmation requests. There was no other satisfactory audit procedure that we could adopt to satisfy ourselves as to whether the borrowings and interest expenses were fairly stated, which would have a consequential effect on net current liabilities and net liabilities of the Group and the Company as at 31 March 2011 and their losses for the year then ended. We qualified our opinion in respect of a similar limitation of scope in the auditor’s report dated 21 June 2010 for the year ended 31 March 2010. Therefore, the comparative amounts may not be comparable and any adjustment to these amounts may also have a consequential effect on the opening balance of the accumulated losses of the Group and the Company at 1 April 2010 and their results for the year ended 31 March 2011.

(B) Appropriateness of using the going concern basis in preparing the consolidated financial statements

The Group sustained consolidated loss for the year of approximately HK\$50,316,000 for the year ended 31 March 2011. At 31 March 2011, the Group had consolidated net current liabilities and net liabilities of approximately HK\$97,680,000 and HK\$427,884,000, respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

As explained in Note 2 to the consolidated financial statements, the Directors have adopted or plan to adopt certain measures (the "Measures") in order to improve the Group's financial and cash flow positions and to maintain the Group as a going concern. The Directors have prepared a cash flow forecast for the next twelve months (the "Forecast") based on certain underlying assumptions including obtaining adequate funding from a loan facility granted by a company owned by an executive director (the "Lender"). The Directors are of the opinion that the Measures will be successfully implemented.

These financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the Measures to be undertaken in order to satisfy the Group's working capital needs and improve its cash flow position. However, the Directors are unable to obtain sufficient information from the Lender to satisfy us that the Lender is able to provide the loan facility. Accordingly, we are unable to determine whether the underlying assumptions of the Forecast are valid and therefore whether it is appropriate to use the going concern basis in preparing the consolidated financial statements. There were no other satisfactory audit procedures that we could adopt in this regard.

Should use of the going concern basis in preparing the financial statements be determined to be inappropriate, adjustments might have to be made to reduce the value of assets to their 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.

Disclaimer of opinion

Because of the significance of the matters described in the "Basis for Disclaimer of Opinion" paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance."

SUSPENSION OF TRADING

Trading of the shares of the Company has been suspended since 28 April 2005 and will continue until the Company submits a viable resumption proposal cleared with the Stock Exchange.

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

Hong Kong, 20 December 2011

As at the date of this announcement, the board of directors of the Company comprises nine directors, of which six are executive directors, namely, Messrs. Xie Hai Yu, Tian Bing Xin, Dong Bao Qing, Xu Dao Bin, Deng Yu Hui and Ma Shui Cheong; and three are independent non-executive directors, namely Messrs. Liu Shang Ping, Kong Tze Wing and Xu Wei.

This announcement, for which the directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the listing of Securities on the Growth Enterprise Market of the Stock Exchange for the purpose of giving information with regard, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this announcement 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 announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

This announcement is available for reference on the Company's website at www.singpao.com and will remain on the "Latest Company Announcements" page of the Growth Enterprise Market website at www.hkgem.com for at least 7 days from the date of its posting.

* *For identification purpose only*