

CHAIRMAN'S STATEMENT

It is my pleasure to present to shareholders the annual results of SMI Corporation Limited (the "Company") and its subsidiaries (together, the "Group") for the year ended 31st March, 2004.

For the year ended 31st March, 2004, the Group displayed a significant improvement in performance with the loss attributable to shareholders decreased substantially to approximately HK\$14 million (2003: HK\$130 million), representing a reduction of approximately 89% from that of 2003. Loss per share was approximately HK0.3 cent (2003: HK5.6 cents), a reduction of approximately 95%. The net loss for the six months ended 30th September, 2003 was approximately HK\$15 million. The improvement was attributable to the Group's stringent cost control measures and effective strategies of consolidating resources on the Group's core businesses with profit prospects. During the first half of the financial year, the Group's operational environment was disrupted by the outbreak of Severe Acute Respiratory Syndrome (SARS). Through effective crisis management initiatives taken during the impact of SARS, the Group nevertheless was able to minimize loss considerably and achieve breakeven in the second half of the financial year.

The Group's net loss comprised: (i) net gain of approximately HK\$5 million in movies, television dramas and documentary content production, distribution and licensing (2003: HK\$2 million loss); (ii) net loss of approximately HK\$2 million in theme restaurant operation and franchising (2003: HK\$33,000); (iii) net gain of approximately HK\$13 million in property investment (2003: HK\$3 million); (iv) net gain of approximately HK\$6 million in investment in securities (2003: HK\$28 million loss); and (v) net loss of approximately HK\$36 million in other operations and corporate business (2003: HK\$103 million).

The net gain in content production, distribution and licensing included mainly a gain of approximately HK\$4.9 million on disposal of a 70% interest in Bob (one of the Group's content production arms). The net loss in theme restaurant operation and franchising comprised mainly a net loss of approximately HK\$19 million in theme restaurant operation and a gain of approximately HK\$16 million on deconsolidation of Star Performance Developments Limited ("Star Performance"), the intermediate holding company of the "Planet Hollywood" theme restaurant franchising business, following a dilution of the Group's interest therein from 100% to 18% upon Star Performance issuing new shares to independent third parties in December 2003. The net gain in property investment included mainly a surplus of approximately HK\$18 million arising on revaluation of certain investment properties. The net gain in investment in marketable securities was mainly due to the recovery on settlement of investments in debt securities recognised in respect of the Group's investments in convertible bonds issued by G-Prop (Holdings) Limited of approximately HK\$33 million. The net loss in other operations and corporate business was mainly due to net loss in talent management and music production of approximately HK\$8 million amidst an increasingly competitive operating environment, and an impairment loss of approximately HK\$20 million recognised in respect of a project investment in the PRC.

The Group's consolidated turnover for the year ended 31st March, 2004 was approximately HK\$106 million, representing a decrease of approximately 24% as compared to that of 2003 of approximately HK\$140 million.

In July 2003, the Group successfully forged a strategic alliance with Strategic Media International Limited ("SMI"), an investment holding company with various interests in the media industry in the PRC. SMI is currently the single largest shareholder of the Company and holds approximately 47.4% of the existing issued share capital of the Company. The alliance strengthened the Group's financial position and provided working capital for the development of the Group's media entertainment business. Leveraging on SMI's strong backing and established connections in the PRC, the change in major shareholder provides an opportunity for the Group to enhance its growing presence in the PRC market, and will contribute to the future growth, financing flexibility and business development of the Company.

On behalf of the board, I would like to take this opportunity to express my gratitude to the shareholders for their support, to the management, celebrity shareholders and staff for their contributions and dedicated efforts throughout this past year. I also wish to thank Mr. Tam Wing Lun, Alan, former Chairman and founding shareholder, for his continuing support to the Group by agreeing to act as Honorary Chairman of the Company and to chair the advisory committee of the board while not holding an executive position in the Company.

Xing Jing
Chairman

Hong Kong, 23rd July, 2004