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星 美 國 際

## SMI CORPORATION LIMITED

(Provisional Liquidator Appointed)

星 美 國 際 集 團 有 限 公 司 \*

(已委任臨時清盤人)

(Incorporated in Bermuda with limited liability)

(Stock Code: 198)

### ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2008

The board of directors (the “Directors”) of SMI Corporation Limited (Provisional Liquidator Appointed) (the “Company”) announces the audited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 March 2008 together with comparative figures for the year ended 31 March 2007 as follows:

#### CONSOLIDATED INCOME STATEMENT

*For the year ended 31 March 2008*

	<i>Notes</i>	<b>2008</b> <b>HK\$'000</b>	2007 <i>HK\$'000</i>
Turnover	4	<b>29,675</b>	38,797
Cost of sales		<b>(6,540)</b>	(9,210)
Direct expenses		<b>(34,323)</b>	(35,137)
Gross loss		<b>(11,188)</b>	(5,550)
Other income	5	<b>4,513</b>	986
Selling expenses		<b>(1,448)</b>	(18)
Administrative expenses		<b>(8,623)</b>	(14,350)
Other expenses	6	<b>(73,714)</b>	(3,287)
Loss from operations		<b>(90,460)</b>	(22,219)
Finance cost	7	<b>(3,653)</b>	(3,816)
Share of results of associates		<b>3,671</b>	1,070
Loss before tax		<b>(90,442)</b>	(24,965)
Income tax expense	8	<b>(13)</b>	(15)
Loss for the year attributable to equity holders of the Company	9	<b>(90,455)</b>	(24,980)
Loss per share:	10		
Basic ( <i>HK cents per share</i> )		<b>(28.8)</b>	(8.0)
Diluted ( <i>HK cents per share</i> )		<b>N/A</b>	N/A

\* *for identification purpose only*

# CONSOLIDATED BALANCE SHEET

As at 31 March 2008

	<i>Notes</i>	<b>2008</b> <i>HK\$'000</i>	2007 <i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		–	4,834
Intangible assets		–	15
Interests in associates		<b>28,122</b>	52,828
Interests in jointly controlled entities		<b>26,685</b>	32,831
		<u><b>54,807</b></u>	<u>90,508</u>
<b>Current assets</b>			
Inventories		<b>3,225</b>	2,462
Trade receivables	<i>11</i>	<b>1,193</b>	14,840
Amount due from a related company		–	236
Prepayments, deposits and other receivables		<b>712</b>	22,121
Bank and cash balances	<i>12</i>	<b>11,443</b>	835
		<u><b>16,573</b></u>	<u>40,494</u>
<b>Current liabilities</b>			
Bank and other borrowings		<b>31,284</b>	31,284
Trade payables	<i>13</i>	<b>5,351</b>	7,497
Amounts due to related parties		<b>11,214</b>	519
Accruals and other payables		<b>76,757</b>	53,642
Tax payable		<b>1,988</b>	1,992
		<u><b>126,594</b></u>	<u>94,934</u>
<b>Net current liabilities</b>		<u><b>(110,021)</b></u>	<u>(54,440)</u>
<b>NET (LIABILITIES)/ASSETS</b>		<u><b>(55,214)</b></u>	<u>36,068</u>
<b>Capital and reserves</b>			
Share capital		<b>31,407</b>	31,407
Reserves		<b>(86,621)</b>	4,661
<b>TOTAL EQUITY</b>		<u><b>(55,214)</b></u>	<u>36,068</u>

# NOTES TO THE FINANCIAL STATEMENTS

## 1. General information

The Company is incorporated in Bermuda as an exempted company with limited liability under the Companies Act of Bermuda. Its registered office is at Clarendon House, Church Street, Hamilton HM 11, Bermuda and its principal place of business is at Room 12, 37th Floor, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and have been suspended for trading since 28 April 2005.

The Company is an investment holding company. The principal activities of its principal subsidiaries are production and distribution of movies and operation of theme restaurants.

## 2. Basis of preparation

### (a) *Winding-up petition and appointment of provisional liquidators*

On 28 September 2007, the Company was placed into the third stage of the delisting procedures. If no viable resumption proposal is submitted at least 10 business days before 27 March 2008, the listing status of the Company will be cancelled.

On 18 February 2008 and 19 February 2008, a winding-up petition (the "Petition") and an application for the appointment of provisional liquidators were respectively presented and filed in the Court of First Instance of the High Court of the Hong Kong Special Administrative Region (the "High Court") by the Bank of China (Hong Kong) Limited, a creditor of the Company. On 20 February 2008, the High Court appointed Mr. Liu Yiu Keung Stephen and Ms. Chan Wai Hing, both of Ernst & Young Transactions Limited as the joint and several provisional liquidators (the "Provisional Liquidators") of the Company.

Pursuant to the Order of the High Court, the Provisional Liquidators will, inter alia, take into their custody and protect all the assets of the Group and manage the Group until such time as further order is made. The Provisional Liquidators are independent third parties not connected with the Company or any of the Directors, chief executive and substantial shareholders of the Company or its subsidiaries or their respective associates as defined in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Ms. Chan Wai Hing subsequently resigned from the office of provisional liquidator on 9 December 2008 and Mr. Liu Yiu Keung, Stephen remained as the sole provisional liquidator (the "Provisional Liquidator").

The Petition has further been adjourned to 23 September 2009 by the Order of the High Court.

**(b) Resumption proposal**

On 7 March 2008, the Provisional Liquidators, the Company, Cenith Capital Limited (“Cenith”), P.C. Woo & Co. (the “Escrow Agent”) and the Company’s controlling shareholder, namely, Strategic Media International Limited (the “Controlling Shareholder”) (collectively as the “Parties”) entered into an escrow agreement (the “Escrow Agreement”) under which the Parties agreed that Cenith was required to deposit with the Escrow Agent a maximum of HK\$15 million (the “Deposit”) for payment of restructuring expenses to be incurred by the Provisional Liquidators during the implementation of the Resumption Proposal (as defined below). In addition, the Parties also agreed that a sum of HK\$5 million be deposited into the Escrow Agent’s account as escrow money (the “Escrow Money”) payable to the creditors of the Company in the event that the proposed restructuring could not proceed further due to the action done or not done by the Controlling Shareholder.

On 11 March 2008, a Memorandum of Understanding (“MOU”) was signed between the Provisional Liquidators, the Company and the Controlling Shareholder. The purpose of the MOU is to record the agreement and arrangements of the parties regarding the proposed restructuring of the Company for the purpose of resuming the trading of the Company’s shares on the Stock Exchange. On the same date, a resumption proposal was submitted to the Stock Exchange requesting for the resumption of trading of the Company’s shares. Subsequently, one set of supplementary information for the resumption proposal and two sets of supplements to the resumption proposal (collectively the “Resumption Proposal”) were submitted to the Stock Exchange on 9 May 2008, 7 August 2008 and 2 February 2009 respectively.

On 13 March 2008, a supplemental agreement to the Escrow Agreement (the “Supplemental Escrow Agreement”) was executed by the Parties for the purpose of extending the date on which a sum of HK\$3 million of the Escrow Money was to be deposited to the Escrow Agent.

On 28 March 2008, the Company, the Provisional Liquidators, the Controlling Shareholder and Mr. Qin Hui (the beneficial owner of the Controller Shareholder) (“Mr. Qin”) entered into a formal agreement (the “Formal Agreement”) in relation to the proposed restructuring of the Company to supersede the MOU.

As at 31 March 2008, the Escrow Agent received the Deposit and the Escrow Money in the sum of HK\$6 million and HK\$5 million respectively according to the Escrow Agreement and the Supplemental Escrow Agreement.

On 6 February 2009, the Stock Exchange issued a letter to the Company advising its decision to allow the Company to proceed with the Resumption Proposal, subject to prior compliance with various conditions to the satisfaction of the Listing Division of the Stock Exchange within six months from that date.

On 11 and 26 February 2009, the Escrow Agent respectively received further sums of HK\$1 million and HK\$2 million for the Deposit according to the Escrow Agreement.

Subsequently on 30 September 2008, 31 March 2009 and 11 May 2009, three supplemental agreements to the Formal Agreement were respectively entered into by the relevant parties for the purposes of amending the relevant terms of the Formal Agreement. The relevant announcement in relation to the Formal Agreement was made on 15 May 2009.

**(c) *Going concern***

The Group incurred a loss attributable to equity holders of the Company of approximately HK\$90,455,000 for the year ended 31 March 2008 (2007: approximately HK\$24,980,000). At 31 March 2008, the Group had net current liabilities of approximately HK\$110,021,000 (2007: approximately HK\$54,440,000) and net liabilities of approximately HK\$55,214,000 (2007: net assets of approximately HK\$36,068,000). These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

The financial statements have been prepared on a going concern basis on the basis that the proposed restructuring of the Company will be successfully completed, and that, following the restructuring, the Group will continue to meet in full its financial obligations as they fall due in the foreseeable future.

Should the Group be unable to achieve a successful restructuring and to continue its business as a going concern, adjustments would have to be made to the financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets.

**3. Adoption of new and revised Hong Kong Financial Reporting Standards**

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant to its operations and effective for its accounting year beginning on 1 April 2007. HKFRSs comprise individual Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; 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 and prior years.

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

The financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance.

The financial statements have been prepared under the historical cost convention.

The accounting policies adopted are consistent with those set out in the annual financial statements for the year ended 31 March 2007.

#### 4. Segment information

##### *Preliminary reporting format – business segments*

An analysis of the Group's financial performance and position by business segments is as follows:

	<b>Movie production, distribution and exhibition <i>HK\$'000</i></b>	<b>Theme restaurant <i>HK\$'000</i></b>	<b>Corporate and others <i>HK\$'000</i></b>	<b>Consolidated <i>HK\$'000</i></b>
<b>Year ended 31 March 2008</b>				
Turnover	<u>–</u>	<u>29,675</u>	<u>–</u>	<u>29,675</u>
Segment results	<u>(58,111)</u>	<u>(14,828)</u>	<u>(6,803)</u>	<u>(79,742)</u>
Other income	–	–	275	275
Other expenses	–	–	(10,993)	<u>(10,993)</u>
Loss from operations				<b>(90,460)</b>
Finance cost				<b>(3,653)</b>
Share of results of associates	<b>1,691</b>	–	<b>1,980</b>	<u>3,671</u>
Loss before tax				<u><b>(90,442)</b></u>

	<b>Movie production, distribution and exhibition <i>HK\$'000</i></b>	<b>Theme restaurant <i>HK\$'000</i></b>	<b>Corporate and others <i>HK\$'000</i></b>	<b>Consolidated <i>HK\$'000</i></b>
<b>At 31 March 2008</b>				
Segment assets	1,035	5,632	9,906	16,573
Interests in associates	18,175	–	9,947	28,122
Interests in jointly controlled entities	–	–	26,685	<u>26,685</u>
Total assets				<u><u>71,380</u></u>
Segment liabilities	<u>6,052</u>	<u>48,473</u>	<u>72,069</u>	<u>126,594</u>
<b>Other segment information</b>				
Capital expenditure	–	100	–	100
Depreciation	11	4,379	560	4,950
Amortisation	–	–	15	15
Impairment of interest in an associate	30,517	–	–	30,517
Impairment of deposits paid on acquisition of interest in an associate	15,555	–	–	15,555
Impairment of trade receivables	12,966	–	–	12,966
Impairment of prepayments and other receivables	<u>2,995</u>	<u>442</u>	<u>3,825</u>	<u>7,262</u>

	Movie production, distribution and exhibition <i>HK\$'000</i>	Theme restaurant <i>HK\$'000</i>	Corporate and others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>Year ended 31 March 2007</b>				
Turnover	<u>1,989</u>	<u>36,750</u>	<u>58</u>	<u>38,797</u>
Segment results	<u>1,212</u>	<u>(10,050)</u>	<u>(11,067)</u>	(19,905)
Other income	–	–	973	973
Other expenses	–	–	(3,287)	<u>(3,287)</u>
Loss from operations				(22,219)
Finance cost				(3,816)
Share of results of associates	1,380	–	(310)	<u>1,070</u>
Loss before tax				<u>(24,965)</u>
<b>At 31 March 2007</b>				
Segment assets	33,413	4,704	7,226	45,343
Interests in associates	44,376	–	8,452	52,828
Interests in jointly controlled entities	–	–	32,831	<u>32,831</u>
Total assets				<u>131,002</u>
Segment liabilities	<u>6,024</u>	<u>32,131</u>	<u>56,779</u>	<u>94,934</u>
<b>Other segment information</b>				
Capital expenditure	–	153	–	153
Depreciation	6	4,322	471	4,799
Amortisation	–	–	7	7
Impairment of prepayments and other receivable	<u>–</u>	<u>–</u>	<u>3,527</u>	<u>3,527</u>

*Secondary reporting format – geographical segments*

	Revenue		Total assets		Capital expenditure	
	2008	2007	2008	2007	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
The PRC and Hong Kong	–	2,047	<b>65,748</b>	126,298	–	–
Japan	<b>29,675</b>	36,750	<b>5,632</b>	4,704	<b>100</b>	153
Total	<b>29,675</b>	38,797	<b>71,380</b>	131,002	<b>100</b>	153

**5. Other income**

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank interest income	–	2
Other interest income, other than from loan receivables	–	734
Gain on disposal of movie rights	<b>4,073</b>	–
Sundry income	<b>440</b>	250
	<b>4,513</b>	986

**6. Other expenses**

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Impairment of interest in an associate	<b>30,517</b>	–
Impairment of amounts due from jointly controlled entities	<b>6,146</b>	–
Impairment of deposits paid on acquisition of interest in an associate ( <i>note (a)</i> )	<b>15,555</b>	–
Impairment of trade receivables ( <i>note (b)</i> )	<b>12,966</b>	–
Others	<b>8,530</b>	3,287
	<b>73,714</b>	3,287

*Notes:*

- (a) This amount represents the full impairment made in respect of the deposit of approximately HK\$15,555,000 paid to 星美傳媒集團有限公司 for the acquisition of 35% additional equity interest in an associate, 星美影院發展有限公司.
- (b) This amount represents the full impairment made in respect of the trade receivable of approximately HK\$12,966,000 due from 星美傳媒集團有限公司 in relation to film distribution income.

**7. Finance cost**

	<b>2008</b>	2007
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Interest on an unsecured bank loan	<b>2,251</b>	2,834
Other loans wholly repayable within five years	<b>1,402</b>	977
Interest element of a finance lease	—	5
	<b><u>3,653</u></b>	<u>3,816</u>

**8. Income tax expense**

	<b>2008</b>	2007
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Current tax – Hong Kong profits tax		
Under-provision in prior years	<b>13</b>	—
Current tax – Overseas		
Provision for the year	—	15
	<b><u>13</u></b>	<u>15</u>

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

## 9. Loss for the year

The Group's loss for the year is stated after charging the following:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Amortisation of intangible assets (included in administrative expenses)	15	7
Depreciation	4,950	4,799
Directors' emoluments:		
– As directors	–	–
– For management	447	961
	<u>447</u>	<u>961</u>
Operating lease charges of land and buildings	8,913	12,183
Auditor's remuneration	500	1,400
Loss on disposal of property, plant and equipment	–	78
Impairment of interest in an associate	30,517	–
Impairment of amounts due from jointly controlled entities	6,146	–
Impairment of deposits paid on acquisition of interest in an associate	15,555	–
Impairment of trade receivables	12,966	–
Impairment of prepayment and other receivables	7,262	3,527
Cost of inventories sold	6,540	9,210
Staff costs including directors' emoluments:		
– Salaries, bonus and allowances	14,833	19,571
– Retirement benefits scheme contributions	204	124
	<u>15,037</u>	<u>19,695</u>

## 10. Loss per share

### *Basic loss per share*

The calculation of basic loss per share attributable to equity holders of the Company is based on the loss for the year attributable to equity holders of the Company of approximately HK\$90,455,000 (2007: HK\$24,980,000) and the weighted average number of ordinary shares of 314,068,757 (2007: 314,068,757) in issue during the year.

### ***Diluted loss per share***

No diluted loss per share is presented as the Company did not have any dilutive potential ordinary shares during the two years ended 31 March 2007 and 2008.

#### **11. Trade receivables**

The Group allows an average credit period of 30 days to its trade customers. The ageing analysis of the Group's trade receivables at balance sheet date is as follows:

	<b>2008</b> <b><i>HK\$'000</i></b>	2007 <i>HK\$'000</i>
Up to 30 days	<b>1,193</b>	1,769
31 to 60 days	–	4
Over 60 days	–	13,067
	<b>1,193</b>	14,840

#### **12. Bank and cash balances**

As at 31 March 2008, the bank and cash balances of the Group denominated in Japanese Yen amounted to approximately HK\$1,503,000 (2007: approximately HK\$637,000).

As at 31 March 2008, the bank and cash balances included the Deposit and the Escrow Money of approximately HK\$4,747,000 and HK\$5,000,000 respectively.

#### **13. Trade payables**

The ageing analysis of the Group's trade payables at balance sheet date is as follows:

	<b>2008</b> <b><i>HK\$'000</i></b>	2007 <i>HK\$'000</i>
Up to 30 days	<b>917</b>	845
31 to 60 days	–	277
Over 60 days	<b>4,434</b>	6,375
	<b>5,351</b>	7,497

## QUALIFIED INDEPENDENT AUDITOR'S REPORT

The Directors would like to draw your attention to the fact that the independent auditor's report on the financial statements for the year ended 31 March 2008 has been qualified. An extract of the independent auditor's report that dealt with the qualifications is as follows:

### **Basis for disclaimer of opinion**

#### **1. *Opening balances and corresponding figures***

The consolidated financial statements of the Company for the year ended 31 March 2007 which form the basis for the corresponding figures presented in the current year's consolidated financial statements were not audited by us, and were disclaimed by the previous auditors in their report dated 4 July 2008. There were no satisfactory audit procedures to ascertain the existence, accuracy, presentation and completeness of the opening balances and corresponding figures shown in the current year's consolidated financial statements.

#### **2. *Interests in associates***

No sufficient evidence has been received by us up to the date of this report in respect of the Group's share of net assets of an associate, Applause Holdings Limited ("Applause") of approximately HK\$4,173,000 (including goodwill of approximately HK\$2,010,000) and the amount due from Applause of approximately HK\$14,002,000 as at 31 March 2008 as included in the interests in associates of approximately HK\$28,122,000 in the consolidated balance sheet.

In respect of the Group's share of net assets of an associate, 星美影院發展有限公司 ("星美影院發展"), an allowance for impairment of approximately HK\$30,517,000 was made against this investment to write down the carrying amount to zero during the year ended 31 March 2008. No sufficient evidence has been received by us up to the date of this report to verify whether the amount of the impairment loss made as included in the other expenses of approximately HK\$73,714,000 in the consolidated income statement is appropriate, and whether the carrying value of zero in respect of this investment was fairly stated in the consolidated balance sheet.

### **3. Trade payables**

No sufficient direct confirmation and other sufficient evidence have been received by us up to the date of this report in respect of the trade payables totaling approximately HK\$3,806,000 as at 31 March 2008 as included in the trade payables of approximately HK\$5,351,000 in the consolidated balance sheet.

### **4. Accruals and other payables**

No sufficient direct confirmation and other sufficient evidence have been received by us up to the date of this report in respect of the accruals and other payables totaling approximately HK\$21,955,000 as at 31 March 2008 as included in the accruals and other payables of approximately HK\$76,757,000 in the consolidated balance sheet.

### **5. Inventories**

We were appointed as auditor of the Company subsequent to the balance sheet date of 31 March 2008. In consequence, we were unable to attend the physical count of inventories as at that date in respect of one of the subsidiaries of the Company, Planet Hollywood (Japan) K.K. No sufficient stock records and other evidence have been provided to us to verify the quantity and conditions of inventories of this subsidiary with the carrying amount of approximately HK\$2,225,000 as at 31 March 2008 as included in the inventories of approximately HK\$3,225,000 in the consolidated balance sheet.

### **6. Tax payable**

No sufficient evidence has been received by us up to the date of this report in respect of the tax payable of approximately HK\$1,988,000 as at 31 March 2008.

### **7. Share of results of associates**

No sufficient evidence has been received by us up to the date of this report in respect of the Group's share of loss of an associate, Applause of approximately HK\$636,000 and share of profit of an associate, 星美影院發展 of approximately HK\$2,327,000 for the year ended 31 March 2008 as included in the share of results of associates of approximately HK\$3,671,000 in the consolidated income statement.

## **8. Other expenses**

Included in other expenses of approximately HK\$73,714,000 in the consolidated income statement were an impairment of deposits paid to 星美傳媒集團有限公司 for the acquisition of 35% additional equity interest in an associate, 星美影院發展 of approximately HK\$15,555,000, an impairment of trade receivables due from 星美傳媒集團有限公司 in relation to film distribution income of approximately HK\$12,966,000 and an impairment of prepayments and other receivables of approximately HK\$5,194,000 in relation to balances brought forward from the year ended 31 March 2007. No sufficient evidence has been received by us up to the date of this report in respect of whether these impairment losses should be recognised in the financial statements for the year ended 31 March 2008 or prior years.

Any adjustments to the figures as described from points 1 to 8 above might have a significant consequential effect on the Group's results for the two years ended 31 March 2007 and 2008, the Group's cash flows for the year ended 31 March 2007 and the financial positions of the Group as at 31 March 2007 and 2008, and the related disclosures thereof in the financial statements.

### **Material uncertainty relating to the going concern basis**

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements which explains that a proposal for the resumption of trading in the Company's shares and the restructuring of the Group (the "Resumption Proposal") was submitted to The Stock Exchange of Hong Kong Limited on 11 March 2008.

The financial statements have been prepared on a going concern basis on the assumption that the Resumption Proposal will be successfully completed and that, following the Resumption Proposal, the Group will continue to meet in full its financial obligations as they fall due in the foreseeable future. The financial statements do not include any adjustments that would result from a failure to complete the Resumption Proposal. We consider that the disclosures are adequate. However, in view of the extent of the material uncertainty relating to the completion of the Resumption Proposal, we disclaim our opinion in respect of the material uncertainty relating to the going concern basis.

## **Disclaimer of opinion: disclaimer on view given by the financial statements**

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs and the material uncertainty relating to the going concern basis as described above, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Group as at 31 March 2008 and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. 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.

## **BUSINESS REVIEW**

The Company is an investment holding company. The Company's principal subsidiaries were mainly engaged in the production, distribution and licensing of content in relation to movies and films, leisure business including theme restaurant, talent management, investments in cinema businesses and cyber café. During the year ended 31 March 2008, all (2007: approximately 95%) of the Group's turnover was derived from a theme restaurant in the name of Planet Hollywood operated by the Group in Japan. In recent years, the theme restaurant operation was not successful and has been in continuous operating losses.

Subsequent to the balance sheet date, the theme restaurant was closed down on 13 April 2009 as a result of an eviction order against a subsidiary of the Group granted by a court in Japan to The Disney Store Japan, a division of Walt Disney International Japan, Inc.

## **FINANCIAL REVIEW**

### **Review of Results**

The Group's turnover for the year ended 31 March 2008 was approximately HK\$29,675,000, a decrease of approximately HK\$9,122,000 or 24% compared with approximately HK\$38,797,000 for the previous year.

Loss attributable to the Company's shareholders for the year ended 31 March 2008 was approximately HK\$90,455,000, an increase of approximately HK\$65,475,000 or 2.6 times compared with approximately HK\$24,980,000 for the previous year. The drastic increase in loss for the year was due to a decrease in turnover and increases in other expenses including impairments of interest in an associate, amounts due from jointly controlled entities, deposit paid on acquisition of interest in an associate and trade receivables which amounting in the total sum of approximately HK\$65,184,000 (2007: Nil).

### **Financial Resources, Liquidity, Capital Structure, Gearing Ratio and Foreign Currency Exposure**

As at 31 March 2008, the Group did not maintain sufficient liquid funds and had net current liabilities of approximately HK\$110,021,000 (2007: approximately HK\$54,440,000). The net current liabilities as at 31 March 2008 include bank and cash balances of approximately HK\$11,443,000 (2007: approximately HK\$835,000). The bank and cash balances as at 31 March 2008 are mainly unused finance provided by the Controlling Shareholder and a third party for the purposes of settling the Group's restructuring expenses to be incurred subsequent to the balance sheet date.

The capital structure of the Group consists of borrowings, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital and reserves.

As at 31 March 2008, the Group's total bank and other borrowings were amounted approximately to HK\$31,284,000 (2007: approximately HK\$31,284,000), of which, approximately HK\$17,203,000 (2007: approximately HK\$17,203,000) was an unsecured bank loan, approximately HK\$11,000,000 and HK\$3,081,000 (2007: approximately HK\$11,000,000 and HK\$3,081,000) were an secured other loan and an unsecured other loan respectively.

The Group's gearing ratio, which is calculated on the basis of the Group's total interest bearing debts net of cash and bank balances and pledged deposit over the total equity interest, as at 31 March 2008 could not be determined as the Group had net liabilities of approximately HK\$55,214,000, (2007: the Group's gearing ratio was 84%).

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the Group entities or United States dollars for Hong Kong dollar functional currency Group entities. The Group currently does not have a foreign currency hedging policy in respect of foreign currency assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

There has not been any change in the Group's funding and treasury policies and the Group will engage in currency hedging against exchange risks.

### **Pledge of Assets**

On 27 December 2006, the Group entered into a share mortgage agreement (the "Share Mortgage Agreement") and a loan assignment agreement (the "Loan Assignment Agreement") with Sunday Inn Limited (the "Lender"). Pursuant to the Share Mortgage Agreement, the Group agreed to pledge in favour of the Lender the Group's 50% interest (held by Fung Ming Venture Limited ("Fung Ming"), a subsidiary of the Company) in Canaria Holding Limited (which in turn owns 100% interest in Earn Elite Development Limited ("Earn Elite")). Pursuant to the Share Mortgage Agreement and Loan Assignment Agreement, the Group agreed to assign to the Lender absolutely all its right, title, interest and benefit in and to the assigned monies of loans in the principal amount of approximately HK\$54,324,000 (before making an impairment of approximately HK\$37,139,000) and HK\$9,500,000 (before making an impairment of approximately HK\$5,528,000) due by Canaria Holding Limited and its subsidiary, Earn Elite, respectively. Both of the Share Mortgage Agreement and Loan Assignment Agreement were entered into as the security (the "Secured Assets") to secure a loan in the sum of HK\$11,000,000 (the "Loan") granted by the Lender to the Group and the Company.

By a power of attorney dated 11 January 2008, the Lender appointed an attorney to take steps in realising the Secured Assets, including the exercising of the power of sale.

Subsequent to the balance sheet date, Siver Epoch Limited (“Siver Epoch”), a wholly owned subsidiary of the Company and the immediate holding company of Fung Ming, and Fung Ming jointly entered into a loan agreement with Mr. Qin on 22 December 2008 under which, Mr. Qin had granted a loan in the sum of approximately HK\$13,878,000 (the “Advance”) to Siver Epoch to repay the outstanding Loan, accrued interest and legal fee in the total sum of approximately HK\$13,787,000 due to the Lender and to redeem the Secured Assets. In return, Siver Epoch shall repay the Advance to Mr. Qin within two years after the resumption of trading of the Company’s shares on the Stock Exchange.

Subsequent to the balance sheet date, the Lender released and discharged the Secured Assets to the Company on 7 January 2009.

### **Contingent Liabilities**

Save as disclosed in “Settlement on Claims by Planet Hollywood” in Subsequent Events below, the Group had no other material contingent liability as at 31 March 2008.

### **Capital Commitment**

The Group had no significant capital commitment as at 31 March 2008.

### **Lease Commitments**

At 31 March 2008, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	<b>2008</b>	2007
	<i>HK\$’000</i>	<i>HK\$’000</i>
Within one year	<b>13,156</b>	8,795
In the second to fifth years inclusive	<b>51,834</b>	34,104
After five years	<b>103,560</b>	81,708
	<b><u>168,550</u></b>	<u>124,607</u>

Except the lease in respect of a restaurant premise in Japan, which has a lease term of 20 years, leases are negotiated for an average term of 2 years. All of the leases do not include contingent rentals.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 31 March 2008, the Group had about 21 full-time employees. Employee remuneration for the year ended 31 March 2008 is approximately HK\$15,037,000 (2007: approximately HK\$19,695,000). The pay scale of the Group's employees is maintained at a competitive level and the employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system, which is reviewed annually.

## **DIVIDEND**

The Directors do not recommend the payment of a final dividend for the year ended 31 March 2008 (2007: Nil).

## **SUBSEQUENT EVENTS**

Apart from those events as already disclosed elsewhere in this Announcement, the following events occurred after 31 March 2008:

### **(a) Reinstatement of the Company's registration status in Bermuda**

On 7 September 2007, the Registrar of Companies in Bermuda struck off the Company from the Register of Companies as a result of the Company's non-payment of its government fee and late penalties. The Provisional Liquidator had made an application to the Supreme Court of Bermuda for an order declaring the dissolution of the Company to have been void.

Pursuant to a court order by the Supreme Court of Bermuda dated 9 April 2009, it was ordered that the Company be restored to the Register of Companies in Bermuda. Pursuant to Section 261 of The Companies Act 1981 of Bermuda (as amended), the Company is deemed to have continued in existence as if its name had not been struck off.

**(b) Litigation**

On 23 August 2007, The Disney Store Japan (“TDSJ”), a division of Walt Disney International Japan, Inc. filed a legal claim to the Court in Japan against Planet Hollywood (Japan) K.K. (“PHJ”), a subsidiary of the Company, in relation to the outstanding rental expenses of approximately HK\$29,383,000 as at 10 August 2007. Such rental expenses are arising from the sublease agreement dated on 19 September 2000 entered into by TDSJ and PHJ. As at 31 March 2008, PHJ had the outstanding rental expense payable to TDSJ of approximately HK\$43,130,000 (2007: approximately HK\$21,889,000).

On 7 April 2009, the Tokyo District Court made a judgement that PHJ was obliged to pay TDSJ the outstanding rental expenses being claimed. Subsequently, on 12 April 2009, TDSJ requested PHJ to repay the outstanding rents and vacate from the premises on or before 13 April 2009. PHJ closed its operation on 13 April 2009.

**(c) Settlement on claims by Planet Hollywood**

On 15 April 2008, a notice of claim was filed by a creditor, Planet Hollywood International Inc, (“Planet Hollywood”) for a sum of US\$6,173,497.61 (the “Claim”) in respect of a Final Default Judgement against the Company (the “Declaratory Judgement”). Planet Hollywood obtained the Declaratory Judgement in the Circuit Court of the Ninth Judicial Circuit In and For Orange County, Florida (the “US Court”) on 9 April 2008 for damages based on the breach of a settlement agreement, namely, the Term Sheet dated 7 February 2005 entered into between Planet Hollywood and the Company (“the Term Sheet”). By the Declaratory Judgement, the US Court ruled that the Company has breached the Term Sheet by failing to perform the agreed-upon provisions therein and that Planet Hollywood shall recover its damages for the Company’s breach of the Term Sheet, including but not limited to actual damages, lost profits, lost business opportunities, interest, attorneys’ fees and costs.

According to the legal opinion, given the nature of the Claim upon which the Notice of Claim is filed and given the legal requirements for Planet Hollywood in applying for leave to issue proceedings against a company being wound up, the likelihood of Planet Hollywood eventually making a successful recovery of an amount of damages based on the breach of the Term Sheet against the Company is slim.

Nevertheless, the Company is in the course of liaising a proposed settlement of the alleged claim with Planet Hollywood. Planet Hollywood had tabled a draft settlement proposal to the Company, pursuant to which the Company, inter alia, is to forfeit its rights in accordance with the licence agreement entered into between the Group and Planet Hollywood and revert the same to Planet Hollywood in exchange for its dismissal of claim against the Company. The Provisional Liquidator had obtained the legal opinion on the same and reverted to Planet Hollywood their comments on the draft settlement proposal. A settlement agreement was duly executed on 27 February 2009 by Planet Hollywood and the Company. On 7 May 2009, the High Court sanctioned the proposed mutual settlement between Planet Hollywood and the Company.

**(d) Modification and redevelopment of property owned by the jointly controlled entity**

Earn Elite applied to the Government of HKSAR for the modification of the land use of its property from cinema to non-industrial purposes (the “Modification”) pursuant to the board resolution dated 23 March 2007. On 31 March 2009, the Government of HKSAR agreed the premium payable for the Modification be revised to HK\$25,080,000. In addition to the costs for the alteration and addition works on the property estimated to be HK\$38,101,800, the total cost for the Modification and redevelopment of the property would therefore be HK\$63,181,800.

On 14 April 2009, an attorney representing the other shareholder of Earn Elite, issued a letter to the Group asking for the consideration of contributing 50% of the total sum, that is, HK\$31,590,900, in the form of shareholders’ loans for the Modification and redevelopment of the property.

On 23 April 2009, an application was made on behalf of Earn Elite to the District Lands Office of the Government of HKSAR (the “District Lands Office”) for a 2 months’ extension until 30 June 2009 for acceptance of the terms of the said revised offer of HK\$25,080,000 for the Modification. By a letter from the District Lands Office dated 30 April 2009, the Government of HKSAR rejected to extend the period for acceptance of the terms of the offer for the Modification.

Meanwhile, on 30 April 2009, an appeal against the said revised premium offer of HK\$25,080,000 and for re-assessment of the premium payable for the Modification (the “Appeal”) has been submitted to the District Lands Office on behalf of Earn Elite. As at the date of this Announcement, the Appeal has not yet been considered by the Government of HKSAR.

**(e) Establishment of café bars**

In order to reactivate the Group's business activities and realise part of the Group's Resumption Proposal, the Group and Cenith entered into a funding deed (the "Funding Deed") on 9 December 2008. Pursuant to the Funding Deed, Cenith agreed to provide a fund of up to HK\$3,000,000 for setting up certain special purpose vehicles (the "SPV") to commence the operation of the Stellar Café Bars. As at the date of this Announcement, the Group has established 6 Stellar Café Bars in the PRC.

**(f) Change of principal place of business**

With effect from 14 April 2009, the principal place of business of the Company in Hong Kong has been changed from Room 2502, 25th Floor, Sino Plaza 255-257 Gloucester Road, Causeway Bay, Hong Kong to Room 12, 37th Floor, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong.

## **PROSPECTS**

The Resumption Proposal, if completely implemented, will amongst other things, result in the following:

- (a) an acquisition of the cinema businesses in the PRC to be settled by way of the issuance of consideration shares of the Company;
- (b) an open offer which will give rise to gross proceeds of approximately HK\$94.2 million;
- (c) the setting up of café bars in the PRC;
- (d) an increase in the authorised share capital of the Company;
- (e) all the creditors of the Company will be repaid in full;
- (f) reorganise its operations by disposing part of its inactive subsidiaries by way of voluntary liquidation; and
- (g) the resumption of trading in the Company's shares upon completion of the proposed restructuring subject to prior compliance with various conditions to the satisfaction of the Listing Division.

The Company also has a view to streamline its business and concentrate its activities in areas where growth opportunities exist for the Group.

On 7 May 2009, the High Court sanctioned that the Company may dispose of certain of its subsidiaries (both direct and indirect) or cause the subsidiaries to be wound up voluntarily.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

The Company and its subsidiaries have not redeemed any of the Company's listed securities during the year ended 31 March 2008. In addition, neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the year ended 31 March 2008.

## **REVIEW OF THE PRELIMINARY ANNOUNCEMENT BY THE AUDITOR**

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 March 2008 have been agreed by the Group's auditor, ANDA CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 March 2008. The work performed by ANDA CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by ANDA CPA Limited on the preliminary announcement.

## **REVIEW OF RESULTS**

The Group's results for the year ended 31 March 2008 have not been reviewed by an audit committee as the Directors have not appointed sufficient audit committee members to constitute an audit committee.

## **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES**

During the year ended 31 March 2008, the Company was in compliance with the principles of good governance (the “Principles”) and code provisions (the “Code Provisions”) set out in Appendix 14: “Code on Corporate Governance Practices” (the “Code”) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “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 not 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 Directors’ will give 14 days’ advanced notifications of regular Board meeting to give all Directors an opportunity to attend and use its best endeavour to give reasonable notices for all other Board meetings (Code Provisions A.1.3);
2. Non-executive Directors were not appointed for a specific term but were subject to retirement by rotation at the Company’s annual general meeting in accordance with the Company’s articles of association (the “Articles”) (Code Provision A.4.1);
3. No remuneration committee was established to review Directors’ remuneration policy and other remuneration related matters. The Directors will, as soon as practicable, establish a remuneration committee with specific written reference which deals clearly with its authorities and duties (Code Provision B.1.1);
4. The Company had not complied with the financial reporting and disclosure requirements set out in the Listing Rules by publishing annual and interim reports on a regular basis. The Directors will use their best endeavour to present a balanced, cleared and assessable assessment of the Company’s performance, position and prospects to shareholders of the Company by publishing annual and interim reports in accordance with the financial reporting and disclosure requirements set out in the Listing Rules (Code Provision C.1.3);

5. The Directors did not maintain sound and effective internal controls to safeguard the Company's shareholders' investment and the Company's assets. In this regard, the Directors will at least annually conduct a review of the effectiveness of the system of internal control of the Group (Code Provision C.2.1).
6. The Directors did not maintain an on-going dialogue with shareholders of the Company. In this regard, the Directors will at least annually conduct a general meeting to communicate with shareholders of the Company and encourage their participation (Code of Best Practice E.1).

Save as those mentioned above, in the opinion of the Directors, the Company had met with the Code Provisions in the Code during the year ended 31 March 2008.

## **COMPLIANCE WITH THE MODEL CODE**

The Directors have not adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in Appendix 10: "Model Code for Securities Transactions by Directors of Listed Issuers" of the Listing Rules. However, the Directors will, as soon as practicable, adopted such code of conduct and request all Directors to comply with it.

## **ANNUAL GENERAL MEETINGS**

The Company had applied to the Registrar of Companies in Bermuda (the "Registrar") for a sanction (the "Sanction") to reconvene the annual general meetings to put its affairs in order for the years 2005, 2006, 2007 and 2008 (the "General Meetings"). On 24 April 2009, the Registrar gave the Sanction on the condition that the General Meetings are held, and that a copy of the minutes of the General Meetings are filed with the Registrar within three months from that date or such other period as the Registrar may allow.

## **SUSPENSION OF TRADING**

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

By Order of the Board  
**SMI Corporation Limited**  
(Provisional Liquidator Appointed)  
**Hu Yidong**  
*Executive Director*

Hong Kong, 18 May 2009

*As at the date of this announcement, the Board comprises 7 Directors, of which 4 are executive Directors, namely Messrs. Hu Yidong, Li Kai, Hao Bin and Liu Xianbo; and 3 are independent non-executive Directors, namely Messrs. Lam Tak Shing, Harry, Pang Hong and Qiao Zhen Pu.*