# 2008/2009

## INTERIM REPORT

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)

* For identification purposes only

## CORPORATE INFORMATION

### Provisional Liquidator

Mr. Liu Yiu Keung, Stephen

### Board of directors

#### *Executive Directors*

Mr. Hu Yidong
Mr. Liu Xianbo
Mr. Li Kai *(Deputy Chairman)*
Mr. Hao Bin

#### *Independent Non-executive Directors*

Mr. Lam Tak Shing, Harry
Mr. Pang Hong
Mr. Qiao Zhen Pu

#### *Audit Committee Members*

Mr. Pang Hong
Mr. Qiao Zhen Pu

### Auditor

ANDA CPA Limited
*Certified Public Accountants*

### Registered office

Clarendon House,
Church Street,
Hamilton HM 11,
Bermuda

### Principal place of business in Hong Kong

Room 12, 37th Floor,
West Tower,
Shun Tak Centre,
200 Connaught Road Central,
Hong Kong

### Share registrars

#### *Principal Share Registrar in Bermuda*

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre,
11 Bermudiana Road,
Pembroke,
Bermuda

#### *Branch Share Registrar in Hong Kong*

Tricor Progressive Limited
26th Floor,
Tesbury Centre,
28 Queen's Road East,
Wanchai,
Hong Kong

### Stock code

198

### Website

www.equitynet.com.hk/smi

## INTERIM RESULTS AND DIVIDEND

The board of directors (the "Directors") of SMI Corporation Limited (Provisional Liquidator Appointed) (the "Company") announces that the unaudited loss attributable to the shareholders of the Company for the six months ended 30 September 2008 was approximately HK$18,138,000, representing a decrease of approximately HK$30,382,000 or 63% from the loss of approximately HK$48,520,000 for the corresponding interim period in 2007. The loss per share for the six months ended 30 September 2008 was 5.8 Hong Kong cents (six months ended 30 September 2007: 15.4 Hong Kong cents).

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2008 (six months ended 30 September 2007: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

The Company is an investment holding company and its subsidiaries (collectively as the "Group") are 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 six months ended 30 September 2008, approximately 99% (six months ended 30 September 2007: approximately 74%) 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 had 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.

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

Pursuant to an order of the High Court, the Provisional Liquidators would, 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 of Hong Kong Limited (the "Listing Rules").

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

## 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 main board of The Stock Exchange of Hong Kong Limited (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 as 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 Controlling 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 30 September 2008, the Escrow Agent had received part of 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 12 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.

On 30 September 2008 and subsequently on 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.

## PROSPECTS

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

(a) an acquisition of a cinema business to be settled by way of the issuance of consideration shares of the Company;

(b) an open offer giving 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 being repaid in full;

(f) reorganisation of the Group's operations by disposing part of its inactive subsidiaries by way of voluntary liquidation; and

(g) trading of the Company's shares on the Stock Exchange being resumed upon completion of the proposed restructuring subject to prior compliance with various conditions to the satisfaction of the Listing Division of the Stock Exchange.

The Company also intends 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 would up voluntarily.

## BUSINESS OUTLOOK

Looking ahead, the Group will concentrate on the businesses of (i) theme restaurant operation; and (ii) entertainment business in relation to the production, distribution and licensing of content for movies, television programs and documentaries.

Apart from the continuous efforts to monitor the market development, restructure and streamlining the business operations so as to improve the financial status of the Group and enhance its business performance, the management of the Company is actively looking for business opportunities to expand the Group's businesses and to widen the Group's income streams.

## 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.

## CONSOLIDATED INCOME STATEMENT

*For the six months ended 30 September 2008*

| | Note | Six months ended 30 September 2008 HK$'000 (Unaudited) | 2007 HK$'000 (Unaudited) |
|---|---|---|---|
| Turnover | 4 | **14,852** | 20,814 |
| Cost of sales | | **(4,343)** | (3,734) |
| Direct expenses | | **(14,211)** | (19,398) |
| Gross loss | | **(3,702)** | (2,318) |
| Other income | 5 | **600** | 607 |
| Administrative expenses | | **(3,409)** | (5,195) |
| Other operating expenses | | **(9,465)** | (40,305) |
| Loss from operations | | **(15,976)** | (47,211) |
| Finance costs | 6 | **(2,383)** | (1,875) |
| Share of results of associates | | **228** | 586 |
| Loss before taxation | | **(18,131)** | (48,500) |
| Income tax expense | 7 | **(7)** | (20) |
| Loss for the period attributable to equity holders of the Company | 8 | **(18,138)** | (48,520) |
| Loss per share: | 9 | | |
| Basic *(HK cents per share)* | | **(5.8)** | (15.4) |
| Diluted *(HK cents per share)* | | **–** | – |

## CONSOLIDATED BALANCE SHEET

*As at 30 September 2008*

| | Note | **30 September 2008 HK$'000 (Unaudited)** | 31 March 2008 HK$'000 (Audited) |
|---|---|---|---|
| **Non-current assets** | | | |
| Interests in associates | | **28,350** | 28,122 |
| Interests in jointly controlled entities | | **19,827** | 26,685 |
| | | **48,177** | 54,807 |
| **Current assets** | | | |
| Inventories | | **3,846** | 3,225 |
| Trade receivables | 10 | **1,586** | 1,193 |
| Prepayments, deposits and other receivables | | **1,157** | 712 |
| Bank and cash balances | 11 | **21,240** | 11,443 |
| | | **27,829** | 16,573 |
| **Current liabilities** | | | |
| Bank and other borrowings | 12 | **31,284** | 31,284 |
| Trade payables | 13 | **5,443** | 5,351 |
| Amounts due to related parties | | **25,254** | 11,214 |
| Accruals and other payables | | **82,232** | 76,757 |
| Tax payable | | **1,999** | 1,988 |
| | | **146,212** | 126,594 |
| **Net current liabilities** | | **(118,383)** | (110,021) |
| **Net liabilities** | | **(70,206)** | (55,214) |
| **Capital and reserves** | | | |
| Share capital | | **31,407** | 31,407 |
| Reserves | | **(101,613)** | (86,621) |
| **Total deficit** | | **(70,206)** | (55,214) |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30 September 2008*

| | Share capital HK'000 | Share premium account HK'000 | Contributed surplus HK'000 | Foreign currency translation reserve HK'000 | Accumulated losses HK'000 | Total HK'000 |
|---|---|---|---|---|---|---|
| At 1 April 2008 (Audited) | 31,407 | 44,150 | 31,172 | 310 | (162,253) | (55,214) |
| Translation difference recognised directly in equity (Unaudited) | – | – | – | 3,146 | – | 3,146 |
| Loss for the period (Unaudited) | – | – | – | – | (18,138) | (18,138) |
| Total recognised income and expenses for the period (Unaudited) | – | – | – | 3,146 | (18,138) | (14,992) |
| At 30 September 2008 (Unaudited) | 31,407 | 44,150 | 31,172 | 3,456 | (180,391) | (70,206) |
| At 1 April 2007 (Audited) | 31,407 | 44,150 | 31,172 | 1,137 | (71,798) | 36,068 |
| Translation difference recognised directly in equity (Unaudited) | – | – | – | 2,251 | – | 2,251 |
| Loss for the period (Unaudited) | – | – | – | – | (48,520) | (48,520) |
| Total recognised income and expenses for the period (Unaudited) | – | – | – | 2,251 | (48,520) | (46,269) |
| At 30 September 2007 (Unaudited) | 31,407 | 44,150 | 31,172 | 3,388 | (120,318) | (10,201) |

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

*For the six months ended 30 September 2008*

| | Note | Six months ended 30 September 2008 HK$'000 (Unaudited) | 2007 HK$'000 (Unaudited) |
|---|---|---|---|
| **Net cash used in operating activities** | | **(7,393)** | (1,844) |
| **Net cash generated from investing activities** | | **–** | 10 |
| **Net cash generated from financing activities** | | **14,040** | – |
| **Net increase/(decrease) in cash and cash equivalents** | | **6,647** | (1,834) |
| Effect of foreign exchange rate changes | | **3,150** | 1,732 |
| **Cash and cash equivalents at beginning of period** | | **11,443** | 835 |
| **Cash and cash equivalents at end of period** | 11 | **21,240** | 733 |

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

**1. Basis of preparation**

These unaudited condensed interim financial statements are prepared in accordance with Hong Kong Accounting Standard 34: "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the applicable disclosure provisions of the Listing Rules and the same accounting policies as those adopted in the annual financial statements for the year ended 31 March 2008 (the "2008 Annual Accounts"). These unaudited condensed interim financial statements should be read in conjunction with the 2008 Annual Report. The financial information relating to the financial year ended 31 March 2008 that is included in these unaudited condensed interim financial statements is derived from the 2008 Annual Accounts.

The preparation of the unaudited condensed interim financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

These unaudited condensed interim financial statements have been prepared under the historical cost convention.

**2. Going concern**

The Group had net liabilities of approximately HK$70,206,000 as at 30 September 2008 (31 March 2008: approximately HK$55,214,000) and incurred a further loss of approximately HK$18,138,000 for the six months ended 30 September 2008 (six months ended 30 September 2007: approximately HK$48,520,000). The Group's liquidity position further deteriorated during the current interim period. 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 unaudited condensed interim 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.

In preparing the unaudited condensed interim financial statements, the Directors have given consideration to the current and anticipated future liquidity of the Group. As part of the measures to improve the Group's immediate liquidity and cash flows, the Company, through its financial advisor, submitted the Resumption Proposal to the Stock Exchange. By its letter dated 6 February 2009, the listing sub-committee (the "Listing Committee") of the board of directors of the Stock Exchange confirmed its decision to allow the Company to proceed with the Resumption Proposal, subject to the prior compliance with certain the conditions which should be completed to the satisfaction of the Listing Division of the Stock Exchange within six months from the date of the letter. The said conditions include, inter alia, the completion of the open offer, acquisition and Group reorganization and all transactions contemplated under the Resumption Proposal (collectively the "Transactions").

In the opinion of the Directors, the Group will have sufficient working capital for its current financial requirements and future development after completing the Transactions. Accordingly, the Directors are satisfied that it is appropriate to prepare the unaudited condensed interim financial statements on a going concern basis, notwithstanding the Group's financial position and liquidity position as at 30 September 2008.

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**

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations, that are first effective or available for early adoption for the current accounting period of the Group. The Group has determined the accounting policies expected to be adopted in the preparation of the Group's financial statements for the year ended 31 March 2009 on the basis of HKFRSs currently in issue.

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.

## 4. Segment information

The Group is principally engaged in the production and distribution of movies and the operation of theme restaurant. An analysis of the Group's financial performance and position by business segments, namely "Movie production, distribution and exhibition", "Theme restaurant" and "Corporate and others" is as follows:

***Business segments***

| | Movie production, distribution and exhibition HK$'000 (Unaudited) | Theme restaurant HK$'000 (Unaudited) | Corporate and others HK$'000 (Unaudited) | Consolidated HK$'000 (Unaudited) |
|---|---|---|---|---|
| **Six months ended 30 September 2008** | | | | |
| Turnover | **107** | **14,745** | **–** | **14,852** |
| Other income | **27** | **427** | **146** | **600** |
| External revenue | **134** | **15,171** | **147** | **15,452** |
| Segment results | **127** | **(6,179)** | **(459)** | **(6,511)** |
| Other expenses | | | **(9,465)** | **(9,465)** |
| Loss from operations | | | | **(15,976)** |
| Finance cost | | | | **(2,383)** |
| Share of results of associates | | | **228** | **228** |
| Loss before tax | | | | **(18,131)** |
| Income tax expense | | | | **(7)** |
| Loss for the period | | | | **(18,138)** |

| | Movie production, distribution and exhibition HK$'000 (Unaudited) | Theme restaurant HK$'000 (Unaudited) | Corporate and others HK$'000 (Unaudited) | Consolidated HK$'000 (Unaudited) |
|---|---|---|---|---|
| **Six months ended 30 September 2007** | | | | |
| Turnover | 5,409 | 15,405 | – | 20,814 |
| Other income | – | – | 607 | 607 |
| External revenue | 5,409 | 15,405 | 607 | 21,421 |
| Segment results | (26,566) | (9,047) | (2,807) | (38,420) |
| Other expenses | | | (8,791) | (8,791) |
| Loss from operations | | | | (47,211) |
| Finance cost | | | | (1,875) |
| Share of results of associates | 170 | | 416 | 586 |
| Loss before tax | | | | (48,500) |
| Income tax | | | | (20) |
| Loss for the period | | | | (48,520) |

***Geographical segments***

| | Turnover | |
|---|---|---|
| | **Six months ended 30 September** | |
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| | **(Unaudited)** | (Unaudited) |
| The PRC and Hong Kong | **107** | 5,409 |
| Japan | **14,745** | 15,405 |
| Consolidated | **14,852** | 20,814 |

## 5. Other income

| | Six months ended 30 September | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| | **(Unaudited)** | (Unaudited) |
| Loan interest income | **–** | 10 |
| Interest income, other than from loan receivables | **–** | 322 |
| Recovery of loans and interest receivables | **163** | 121 |
| Others | **437** | 154 |
| | **600** | 607 |

## 6. Finance costs

| | Six months ended 30 September | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| | **(Unaudited)** | (Unaudited) |
| Interest on: | | |
| Bank and other borrowings wholly repayable within five years | | |
| – bank loan | **763** | 1,717 |
| – other loans | **1,620** | 158 |
| | **2,383** | 1,875 |

## 7. Income tax expense

| | Six months ended 30 September | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| | **(Unaudited)** | (Unaudited) |
| Hong Kong Profits Tax – underprovision in prior years | **–** | 13 |
| Taxation outside Hong Kong – current year income tax | **7** | 7 |
| Taxation charge | **7** | 20 |

No provision for Hong Kong Profits Tax has been made in the unaudited condensed interim financial statements as the companies within the Group have either no assessable profits for the six months ended 30 September 2008 and 2007 or have their profits wholly absorbed by tax losses brought forward.

Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

**8. Loss for the period**

| | **Six months ended 30 September** | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| | **(Unaudited)** | (Unaudited) |
| Loss from operations is arrived at after charging: | | |
| Staff costs: | | |
| – wages and salaries | **6,169** | 6,853 |
| – retirement benefit scheme contribution | **723** | 910 |
| | **6,892** | 7,763 |
| Amortisation of intangible assets | **–** | 15 |
| Depreciation | **–** | 578 |
| Impairment of amounts due from jointly controlled entities | **6,858** | 6,816 |
| Impairment of deposits paid on acquisition of interest in an associate | **–** | 15,555 |
| Impairment of trade and other receivables | **–** | 24,750 |
| Restructuring expenses | **2,607** | – |

## 9. Loss per share

The calculation of basic loss per ordinary share is based on the Group's loss attributable to equity holders of the Company divided by the weighted average number of ordinary shares in issue during the period.

| | Six months ended 30 September | |
|---|---|---|
| | **2008** | 2007 |
| | **(Unaudited)** | (Unaudited) |
| Loss for the period | **HK$18,138,000** | HK$48,520,000 |
| Weighted average number of ordinary shares in issue during the period | **314,068,757** | 314,068,757 |

No diluted loss per share is presented as the Company did not have any diluted potential ordinary shares as at 30 September 2008 and 30 September 2007.

## 10. Trade receivables

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

| | **30 September** | 31 March |
|---|---|---|
| | **2008** | 2008 |
| | **HK$'000** | HK$'000 |
| | **(Unaudited)** | (Audited) |
| Up to 30 days | **1,586** | 1,193 |

## 11. Bank and cash balances

| | 30 September 2008 HK$'000 (Unaudited) | 31 March 2008 HK$'000 (Audited) |
|---|---|---|
| Bank balances | **296** | 1,603 |
| Cash held at bank by the provisional liquidators | **686** | 93 |
| Cash held in escrow account | **20,258** | 9,747 |
| | **21,240** | 11,443 |

## 12. Bank and other borrowings

| | 30 September 2008 HK$'000 (Unaudited) | 31 March 2008 HK$'000 (Audited) |
|---|---|---|
| Bank loan – unsecured | **17,203** | 17,203 |
| Other loan – secured | **11,000** | 11,000 |
| Other loan – unsecured | **3,081** | 3,081 |
| | **31,284** | 31,284 |
| Less: amount due for settlement with 12 months | **(31,284)** | (31,284) |
| Amount due after 12 months | **–** | – |

At 30 September 2008, the secured other loan was secured by the Group's interests in jointly controlled entities.

### 13. Trade payables

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

| | **30 September 2008 HK$'000 (Unaudited)** | 31 March 2008 HK$'000 (Audited) |
|---|---|---|
| Up to 30 days | **1,132** | 917 |
| Over 60 days | **4,311** | 4,434 |
| | **5,443** | 5,351 |

### 14. Interim dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2008 (six months ended 30 September 2007: Nil).

### 15. 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 Group) 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$37,419,000) and HK$9,500,000 (before making an impairment of approximately HK$6,578,000) 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, Silver Epoch Limited ("Silver 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$13,877,000 (the "Advance") to Silver 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, Silver 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.

## 16. Contingent Liabilities

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 had breached the Term Sheet by failing to perform the agreed-upon provisions therein and that Planet Hollywood could 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 obtained by the Company, the likelihood of Planet Hollywood eventually making a successful recovery of an amount of damages based on the breach of the Term Sheet is slim, given the nature of the claim upon which the Notice of Claim was filed and given the legal requirements for Planet Hollywood in applying for leave to issue proceedings against a company for which a provisional liquidator is appointed.

Nevertheless, the Company is in the course of liaising a proposed settlement of the 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 the Claim. The Provisional Liquidator obtained a legal opinion on the same and had reverted to Planet Hollywood his comment on the draft settlement proposal. A settlement agreement was duly executed on 27 February 2009 by Planet Hollywood, the Company and Star East (BVI) Limited (a subsidiary of the Company). On 7 May 2009, the High Court sanctioned the proposed mutual settlement between Planet Hollywood, the Company and Star East (BVI) Limited.

## 17. Capital Commitment

The Group had no significant capital commitment as at 30 September 2008.

## 18. Subsequent Events

Apart from those events as already disclosed elsewhere in this interim report, the following events occurred after 30 September 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 Company had made an application to the Supreme Court of Bermuda for an order declaring the reinstatement of the Company's status in Bermuda.

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 stuck 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 a court in Japan against Planet Hollywood (Japan) K.K. ("PHJ"), a subsidiary of the Group, in relation to outstanding rental expenses of approximately HK$29,383,000 as at 10 August 2007. Such rental expenses were arising from the sublease agreement dated 19 September 2000 entered into by TDSJ and PHJ. As at 30 September 2008, PHJ had an outstanding rental expense payable to TDSJ of approximately HK$46,782,000 (Japanese Yen 640,845,000).

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 rentals and vacate from the premises on or before 13 April 2009. PHJ closed its operation on 13 April 2009.

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

Earn Elite applied to the Government of the HKSAR for the modification of the land use of its property from cinema to non-industrial purposes (the "Modification") pursuant to a board resolution dated 23 March 2007. On 31 March 2009, the Government of the HKSAR agreed the premium payable for the Modification be revised to HK$25,080,000. In addition to the costs for the alteration and additional 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 the 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 the 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") was submitted to the District Lands Office by Earn Elite. As at the date of this interim report, the Appeal has not yet been considered by the Government of HKSAR.

***(d) Establishment of café bars***

By an order of the High Court dated 14 October 2008, the Provisional Liquidators were sanctioned to set up a subsidiary of the Company as a special purpose vehicle and to enter into an agreement with Cenith for the purpose of preserving the assets of the Company and/or carrying out a restructuring of the business of the Company.

In order to activate the Group's business activities and realise part of the Group's Resumption Proposal, on 9 December 2008, the Group and Cenith entered into a funding deed in which Cenith had agreed to provide a fund of up to HK$3,000,000 for setting up certain special purpose vehicles to commence and run the Stellar Café Bars. As at the date of this interim report, the Group has established 6 Stellar Café Bars in mainland China.

***(e) 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.

**19. Comparative figures**

Certain comparative figures in the unaudited condensed interim financial statements have been reclassified to conform with current period's presentation.

## FINANCIAL REVIEW

### Review of Results

The Group's turnover for the six months ended 30 September 2008 was approximately HK$14,852,000, a decrease of approximately HK$5,962,000 or 27% compared with approximately HK$20,814,000 for the corresponding interim period in 2007.

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

| | Movie production, distribution and exhibition<br>HK$'000<br>(Unaudited) | Theme restaurant<br>HK$'000<br>(Unaudited) | Corporate and others<br>HK$'000<br>(Unaudited) | Consolidated<br>HK$'000<br>(Unaudited) |
|---|---|---|---|---|
| **Six months ended 30 September 2008** | | | | |
| Turnover | **107** | **14,745** | **–** | **14,852** |
| Segment results | **127** | **(6,179)** | **(459)** | **(6,511)** |
| **Six months ended 30 September 2007** | | | | |
| Turnover | 5,409 | 15,405 | – | 20,814 |
| Segment results | (26,566) | (9,047) | (2,807) | (38,420) |

The Group's movies, television, dramas and documentary production, distributing and licensing operation had continued to shrink during the six months ended 30 September 2008 due to the Group's liquidity problem. The Group has also recorded continuous losses in its theme restaurant operation in Japan.

The leisure and entertainment industry is highly volatile because it is very much dependent on the economic condition and consumers' willingness to spend. Therefore, the Group's performance would fluctuate vigorously in accordance with changes in market condition. However, it is the Group's long term strategy to diversify its business operations within the leisure and entertainment industry in order to minimise the impacts due to such unstable market environment.

Loss attributable to the Company's shareholders for the six months ended 30 September 2008 was approximately HK$18,138,000, a substantial decrease of approximately HK$30,382,000 or 63% compared with approximately HK$48,520,000 for the corresponding interim period in 2007 because the Group was not required to make further impairments on acquisition of interest in an associate and trade and other receivables. Such impairments were amounting in the total sum to approximately HK$40,305,000 in the corresponding interim period in 2007.

During the current interim period, the Group was required to provide a further impairment loss in the sum of approximately HK$6,858,000 (six months ended 30 September 2007: approximately 6,816,000) for the Group's jointly controlled entities.

In addition, the Group had incurred restructuring expenses in the sum of approximately HK$2,607,000 during the six months ended 30 September 2008 (six months ended 30 September 2007: Nil).

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

As at 30 September 2008, the Group did not maintain sufficient liquid funds and had net liabilities of approximately HK$70,206,000 (31 March 2008: approximately HK$55,214,000). The net liabilities as at 30 September 2008 included cash and cash equivalents of approximately HK$21,240,000 (31 March 2008: approximately HK$11,443,000) which were mainly unused finance provided by the controlling shareholder of the Company 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 30 September 2008, the Group's total loans and borrowings were amounted approximately to HK$31,284,000 (31 March 2008: approximately HK$31,284,000), of which, approximately HK$17,203,000 (31 March 2008: approximately HK$17,203,000) was an unsecured bank loan, approximately HK$11,000,000 and HK$3,081,000 were a secured other loan and an unsecured other loan respectively (31 March 2008: approximately HK$11,000,000 and HK$3,081,000 respectively).

The Group's gearing ratio, 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 30 September 2008 and 31 March 2008 could not be determined as the Group had net liabilities of approximately HK$70,206,000 and HK$55,214,000 respectively.

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.

**Material acquisition and disposal**

The Group had no material acquisition and disposal during the six months ended 30 September 2008.

## EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2008, the Group had approximately 20 full time employees. The staff costs for the six months ended 30 September 2008 was approximately HK$6,892,000 (six months ended 30 September 2007: approximately HK$7,763,000). 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.

## PURCHASE, SALE OR REDEMPTION OF SHARES

The Company and its subsidiaries had not redeemed any of the Company's listed securities during the six months ended 30 September 2008. In addition, neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities during the six months ended 30 September 2008.

## REVIEW OF INTERIM RESULTS

The unaudited interim results for the six months ended 30 September 2008 have neither been reviewed by an external auditor nor reviewed by an audit committee as the Directors have not appointed sufficient number of audit committee members to constitute an audit committee.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 September 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 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); and

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 has met with the Code Provisions in the Code during the six months ended 30 September 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 the Model Code. However, the Directors will, as soon as practicable, adopted such code of conduct and request all Directors to comply with it.

## AUDIT COMMITTEE

The Directors have not appointed sufficient members to constitute an audit committee. However, the Directors will, as soon as practicable, establish an audit committee with clear terms of reference pursuant to the Listing Rules.

## DIRECTORS

The directors of the Company during the interim period and up to the date of this interim report were:

**Executive directors:**

| | |
|---|---|
| Mr. Hu Yidong | (appointed as executive director on 7 May 2009) |
| Mr. Liu Xianbo | |
| Ms. Horfuangfung Wei Ho | (resigned as executive director on 7 May 2009) |
| Mr. Li Kai *(Deputy Chairman)* | |
| Mr. Hao Bin | |

**Independent non-executive directors:**

Mr. Lam Tak Shing, Harry
Mr. Pang Hong
Mr. Qiao Zhen Pu

## DISCLOSURE OF INTERESTS

### Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

No Director who held office at 30 September 2008 or any of his or her spouses or children under eighteen years of age had interests or short positions in the shares, underlying shares or debentures of the Company, or any of its holding company, subsidiaries and other associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

The Company had been notified of the following interests in the Company's issued shares at 30 September 2008 amounting to 5% or more of the ordinary shares in issue:

| | | | Total number of ordinary shares held | | |
|---|---|---|---|---|---|
| Substantial shareholders | Registered shareholders | Corporate interests | long position | short position | % of total issued shares |
| Mr. Qin Hui | – | 163,239,981 | 163,239,981 (Note) | – | 51.98% |
| Strategic Media International Limited ("SMIL") | 163,239,981 | – | 163,239,981 | – | 51.98% |

Note: Mr. Qin Hui owned the entire interest in SMIL and was accordingly deemed to be having the same interests in the shares as SMIL.

Apart from the foregoing, no other interests required to be recorded in the register kept under section 336 of the SFO have been notified to the Company.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

Interests of the directors of the Company in competing businesses required to be disclosed pursuant to Rule 8.10 of the Listing Rules are as follows:

| Name of director | Name of company | Nature of competing business | Nature of interest |
|---|---|---|---|
| Mr. Hu Yidong | Stellar Megamedia Group Limited and its subsidiaries | Movies, television dramas and documentary production, distribution and licensing in the PRC | As chief executive officer |
| | | Talent management in the PRC | |
| Mr. Hao Bin | Stellar Megamedia Group Limited and its subsidiaries | Movies, television dramas and documentary production, distribution and licensing in the PRC | As executive director |
| | | Talent management in the PRC | |
| | China Film & Stellar Theater Chain Co., Limited | Theater management in the PRC | As executive director |

Having considered (i) the nature, scope and size of the above businesses as compared to those of the Group; and (ii) the nature and extent of the above-named directors' respective interest in these businesses, the directors of the Company believe that there is unlikely to be any significant competition with the businesses of the Group.

Apart from the foregoing, none of the Directors is interested in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

## CONNECTED TRANSACTIONS

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 28 March 2008, the Company, the Provisional Liquidators, the Controlling Shareholder and Mr. Qin entered into a formal agreement (the "Formal Agreement") in relation to the proposed restructuring of the Company to supersede the MOU. Pursuant to the Formal Agreement, the Company has conditionally agreed to purchase the entire issued capital of Colour Asia Pacific Limited ("Colour Asia"), a private company wholly owned by Mr. Qin ("the Share") together with the assignment by Mr. Qin of all the benefit of the amount of the shareholder's loan due by Colour Asia to Mr. Qin as at the completion of the said purchase and assignment (the "Colour Asia Loan").

The consideration for the Share and the Colour Asia Loan is estimated at HK$84.35 million and RMB 8.70 million (equivalent to approximately HK$9.67 million) respectively which is to be settled by the allotment and issue by the Company of a maximum of 843,500,000 of its new shares at an issue price of HK$0.10.

The relevant announcement in relation to the Formal Agreement was made on 15 May 2009.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company as at the date of this interim report, the Company has maintained the prescribed public float under the Listing Rules.

## DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director had a material interest, subsisted at the end of the year or at any time during the year.

## DISCLOSURE UNDER RULE 13.22 OF THE LISTING RULES

The total value of the amounts due from the Group's affiliated companies as at 30 September 2008 in respect of advances made by the Group was approximately HK$47,425,000, representing more than 8% of the percentage ratios defined under the Listing Rules.

It is not practicable to prepare the combined balance sheet of the Group's affiliated companies as information of certain affiliated companies is not available to the Group.

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

Hong Kong, 18 May 2009