2010
Interim Report

星 美 國 際

SMI CORPORATION LIMITED

星美國際集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 198)

* For identification purposes only

Theaters
電影院

Contents

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. QIN Hong *(Chairman)*
Ms. XIAO Ping *(Chief Executive Officer)*
Mr. HU Yidong
Mr. LI Kai

Independent Non-Executive Directors

Mr. HE Peigang
Mr. PANG Hong
Mr. CHAN Sek Nin, Jackey

COMMITTEES

Audit Committee

Mr. HE Peigang *(Chairman)*
Mr. PANG Hong
Mr. CHAN Sek Nin, Jackey

Remuneration Committee

Mr. HE Peigang *(Chairman)*
Mr. PANG Hong
Mr. CHAN Sek Nin, Jackey

Nomination Committee

Mr. HE Peigang *(Chairman)*
Mr. PANG Hong
Mr. CHAN Sek Nin, Jackey

COMPANY SECRETARY

Mr. LAU Chi Yuen

AUTHORIZED REPRESENTATIVES

Ms. XIAO Ping
Mr. LAU Chi Yuen

AUDITOR

SHINEWING (HK) CPA Limited

REGISTERED OFFICE

Clarendon House,
2 Church Street,
Hamilton HM 11,
Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 6701-2 & 13, The Center,
99 Queen's Road Central,
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

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited

STOCK CODE

00198

WEBSITE

www.equitynet.com.hk/smi
www.smi198.com

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

Revenue

Total Turnover during the Reporting Period was HK$301 million. Out of which, HK$92.1 million was generated from the theaters operation business, a substantial increase of 253% from HK$26.1 million for the six months ended 30 September 2009.

Cost of Sales

Total Cost of Sales for the three theaters operated by the Company amounted was HK$53.4 million. (HK$14.2 million for the six months ended 30 September 2009).

Gross Profit

Gross profit from the theaters operation during the Reporting Period was HK$38.7 million, a substantial increase of 225% from HK$11.9 million for the six months ended 30 September 2009, and representing a gross margin of 42%. The Company expects the theater operation business continues to maintain high gross margin.

The substantial increase of both Revenue and Gross Profit was mainly due to the excellent performance of the three movie theaters operated by the Group. And that during the six months ended 30 September 2009, only 2 months of operation was captured because the acquisition of the three theaters was only completed on 30 July 2009.

Loss for the Reporting Period

Loss for the Reporting Period was HK$28.6 million (Profit of HK$13.2 million for the six months ended 30 September 2009) primarily due to recording the total value of HK$29.5 million as expense for the share options granted on May 3, 2010 and June 11, 2010 respectively. Should the HK$29.5 million share options expense be taken out, the profit for the period should be HK$0.9 million.

As the Company continued to acquire assets and businesses in the process of restructuring, relatively high operating, administration expenses and professional fees were incurred for the six months ended 30 June 2010. With the gradual completion of restructuring, these expenses are expected to be substantially reduced the latest by 2011.

Business review

Theater operation business

In China, the movie industry continues to be one of the most attractive and fastest growing industries in the consumer market. The gross box office receipts in the 1st quarter of 2010 was RMB 2.9 billion, a huge increase of 133.6% if compared to the same period in 2009 and a substantial increase of 49.7% from the previous quarter. The gross box receipts further increased to RMB 4.8 billion for the six months ended 30 June 2010.

Coupled with the recent success of 3D presentation, China's movie industry has entered into a rapid development stage with growing number of audience who are demanding high quality entertainment experience in modern theaters. As such increasing number of high quality and high profile domestic films are being produced and increasing number of foreign movies are being imported to satisfy this demand.

We have already seen increasing numbers of blockbusters and high profile domestic productions planned to be launched later this year. This will give the market an additional push and we expect the rapid growth of the China movie industry to sustain.

Acquisition

Interest in 12 movie theaters

With its strategy to become one of the leading theater operators in China, the Company announced on 26 March 2010 the preliminary agreement to acquire the interests of 12 movie theaters in China at a consideration of HK$1,200 million.

Through the acquisition, extra theaters will be added in tier one cities, Beijing, Shanghai and Guangzhou with new coverage for theaters located in tier two cities such as Tianjin, Chongqing, Chengdu, Shenyang, Xuzhou and Lanzhou. Together with the 3 existing movie theaters the Company had operated since July 2009, the Company will be operating a total of 15 multi-screen movie theaters with up to 95 screens and 14,261 seats in total and a much wider geographical coverage.

Photon VFX – Visual effect, Animation and Post-production business

On 12 June 2010, the Company announced the acquisition of Photon VFX, a world's leading visual effects, animation and post-production company based in Queensland, Australia at a total consideration of USD3.64 million. A new company, SMI-Photon VFX, will be formed shortly and will integrate the superior vocational skills, technology, experience and network in Hollywood of Photon VFX and the prominent presence in movie production, extensive theaters network of the Company to revolutionize the visual effects, animation and post-production of movie industry in China.

Mr. Dale Duguid, the founder of Photon VFX who has been the prime mover in the Australian VFX industry over the last 20 years with his works on Hollywood movies nominated for Academy and Emmy awards on numerous occasions, will act as the Chief Executive Officer of SMI-Photon China to lead the development of this new venture.

This acquisition signifies a key step in our goal to become a leading integrated entertainment and media company with primary focus in China and we are very positive about the value and synergy this new venture will bring to the Company as a whole.

Movie production

Foreign blockbuster Avatar, which showcases the impact of 3D presentation, topped the box office receipt in the first six months of 2010. As a result, imported movies accounted for 56% of the box office receipts against 44% from the domestic productions in the first six months of 2010. We however noted that 7 of the 10 highest box office films were domestic productions and good individual Chinese films are as popular as most of the other imported movies. With the ever increasing demand for high quality entertainment from the new affluent group of people in China, there is a big growing potential for domestic productions.

During the six months ended 30 June 2010, we invested in the film production of many high profile films namely "趙氏孤兒" (The Orphan of Zhao), "無人駕駛"(Unmanned), "神奇俠侶" (Mr and Mrs Incredible). These films will be shown in late 2010/early 2011.

Prospects

With the continuing growth of the movie industry in China, the theater operation business of the Company is expected to experience an even more rapid growth this year. In addition to adding additional capacity to our theaters operation, in view of the increasing popularity of 3D presentations, the Company is adding more 3D systems to its movie theaters. The Company will continue to expand its movie theater portfolio to become one of the leading theater operators in China.

3D presentations have been proven by the successes of Avatar, Alice in the Wonderland and Clash of the Titans. There is a substantial market for 3D technical production in China. The Company intends to produce quality 3D movies for the China and overseas markets. These 3D movies will be shown in the Company's cinemas. The Company has ordered IMAX systems to enhance the 3D capability in the Company's cinemas.

Operation and Management of 25 Movie Theaters

On 26 July 2010, the Board announced that it has entered into an agreement with Xingmei Investment in relation to the Transfers of Leases for 25 cinemas in China at a consideration of approximately HK$55 million.

Upon completion, the Group will participate, directly and indirectly, in the operation and management of an additional 25 cinemas with up to 191 screens and 29,357 seats in 21 cities in China.

Financial resources and liquidity

As at 30 June 2010, the Group maintained sufficient liquid fund and had net current assets of HK$431 million. The net current assets included a substantial cash reserve of HK$294 million, an increase of HK$218 million from HK$76 million as at 31 December 2009. The increase is mainly due to cash proceeds of HK$313 million from the issuance of Convertible Note and Placement of new shares.

The Group's net assets were HK$514 million, representing an increase of HK$314 million from HK$200 million as at 31 December 2009. This was due to the increases of share capital and share premium of HK$313 million in total through the conversion of Convertible Note to shares, Placement of new shares and issuance of share options.

The Group was financed primarily through share capital and reserve. There was no bank borrowing as at 30 June 2010.

Foreign exchange risks

The reporting currency of the Company is in Hong Kong dollars ("HK$"). A major portion of the Company business including the revenues of its theater operation is denominated in Renminbi ("RMB"). With the expansion of these operations primarily be in China, the Company is therefore exposed to exchange loss if HK$ strengthens against RMB.

The Group currently does not have a foreign currency hedging policy. The Directors considers that it is unlikely HK$ would strengthen against RMB in the near future. However if RMB continues to strengthen against HK$, the Company is expected to have an exchange gain resulting from its RMB based investments in China. The Group will monitor its foreign currency exposure closely and will consider implementing an appropriate foreign currency hedging policy should the need arise.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2010, the Group had a total of 219 full-time employees (including director but excluding part-time staff). The Company offers remuneration and benefit packages to its employees according to the prevailing salary levels in the market, individual merits, experience and performance.

DIRECTOR'S REPORT

Directors

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

Executive Directors

Mr. QIN Hong *(Chairman)*
Ms. XIAO Ping *(Chief Executive Officer)*
Mr. HU Yidong
Mr. LI Kai

Independent Non-Executive Directors

Mr. HE Peigang
Mr. PANG Hong
Mr. CHAN Sek Nin, Jackey

Share option scheme

The Company adopted a share option scheme on 30 September 2009. The purpose of the share option scheme is to enable the Board, at its discretion, to grant options to eligible participants, including the directors of the Company, as incentives or rewards for their contributions to the Group, details of the scheme are set out in note 26 to the consolidated financial statements.

During the six months ended 30 June 2010, certain executive directors of the Company and other eligible participants have interests in share options to subscribe for shares in the Company. Details of such interests and movement of share options granted by the Company are shown below.

Name	Date of grant	Exercise period (Note)	Number of share options: Balance as at 1 January 2010	Granted during the period	Exercised during the period	Lapsed during the period	Balance as at 30 June 2010	Exercise price per share HK$
Director								
QIN Hong	11 June 2010	2	–	33,000,000	–	–	33,000,000	0.51
XIAO Ping	11 June 2010	2	–	20,000,000	–	–	20,000,000	0.51
HU Yidong	11 June 2010	2	–	15,000,000	–	–	15,000,000	0.51
LI Kai	11 June 2010	2	–	5,000,000	–	–	5,000,000	0.51
Other Eligible participants								
	3 May 2010	1	–	209,975,500	–	–	209,975,500	0.57
	11 June 2010	2	–	66,075,507	–	–	66,075,507	0.51
	11 June 2010	3	–	197,075,500	–	–	197,075,500	0.51
			–	546,126,507	–	–	546,126,507	

Notes:

(1) From 3 May 2010 to 2 May 2011.

(2) Divided into 2 tranches exercisable from 11 June 2010 to 10 June 2013.

(3) From 11 June 2010 to 10 June 2011.

Disclosure of interests

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

Save as disclosed above in the Share Option Scheme, No Director who held office at 30 June 2010 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 June 2010 amounting to 5% or more of the ordinary shares in issue:

Substantial Shareholder	Registered shareholders	Corporate Interest	Long position	Short position	% of total issued shares
Mr. QIN Hui	4,252,242,317	23,878,623	4,276,120,940 (Note)	–	73.28%
Strategic Media International Limited ("SMIL")	23,878,623	–	–	–	0.41%

Note:

(1) Mr. QIN Hui owned the entire interest in SMIL and was accordingly deemed to be having the same interests in the shares as SMIL; and

(2) Mr. QIN Hui is interested in additional 1,627,118,644 shares which may be issued upon conversion of the convertible note in the principal amount of HK$480 million at the conversion price of HK$0.295 per share.

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	Chief Executive Officer
Mr. QIN Hong	Stellar Megamedia Group Limited and its subsidiaries	Movies, television dramas and documentary production distribution and licensing in the PRC	Chairman
	Stellar Mega Films Co. Limited	Movies production and talent management in the PRC	Chairman

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.

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 period or at any time during the period.

PURCHASE, SALE OR REDEMPTION OF SHARE

The Company and its subsidiaries had not redeemed any of the Company's listed securities during the six months ended 30 June 2010. In addition, neither the Company nor any of its subsidiaries has purchase or sold any of the Company's listed securities during the six month ended 30 June 2010.

APPRECIATION

I would like to take this opportunity to thank my fellow directors, as well as the management and all our employees for the contribution they have made towards the Group's continued progress, and to our shareholders, customers and business partners for their support.

By Order of the Board
SMI Corporation Limited
QIN Hong
Chairman

Hong Kong, 30 August 2010

CORPORATE GOVERNANCE REPORT

Compliance with the code on corporate governance practices

During the six months ended 30 June 2010, 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 due to practical reasons, 14 days' advanced notifications have not been given to all meetings of the board of Directors (the "**Board**"). The Company will endeavor to ensure a majority of its Directors attend the Board meetings. The Directors are of the view that there is efficient communication by the Company and among them to keep abreast of the development of the affairs of the Company.

Save as those mentioned above, in the opinion of the Directors, the Company complied with the Provisions of the CG Code during the six months ended 30 June 2010.

Chairman and chief executive officer

The chairman and chief executive officer of the Company are held separately by two individuals to ensure their respective independencies, accountabilities and responsibilities. While the chairman is in-charge with the leadership of the Board and strategies planning of the Group, the chief executive officer is responsible for the day-to-day management of the Group's business.

The chairman and chief executive officer of the Company are Messrs. QIN Hong and Ms. XIAO Ping respectively.

Internal control

The Board has overall responsibility for the internal control and risk management systems of the Company and for reviewing the effectiveness of the internal control and risk management system through the Audit Committee during the year. The Company has in place internal control and risk management systems covering financial, operational, compliance and risk management and supervised by an internal audit manager. The internal control review report prepared by Grant Thornton referred to above reveals certain inadequacies in our internal control system. The Company has already taken steps to address these inadequacies. The Company is in the process of improving and enhancing its internal control and risk management systems.

Review by audit committee

Since 14 July 2009, the Company has established an audit committee (the "Audit Committee") with written terms of reference aligned with the Provisions of the CG Code. The Audit Committee currently comprises three independent non-executive Directors, namely, Messrs. HE Peigang (as chairman), PANG Hong and CHAN Sek Nin, Jackey.

The audit committee has reviewed with the management of the Company, the accounting principles and practices adopted by the Group and discussed financial reporting matters including a review of the Group's interim financial statements for the six months ended 30 June 2010.

Review by remuneration committee

Since 14 July 2009, the Company has established a remuneration committee (the "Remuneration Committee") with written terms of reference. The Remuneration Committee currently comprises three independent non-executive directors, namely, Messrs. HE Peigang (as Chairman), PANG Hong and CHAN Sek Nin, Jackey.

The remuneration committee has reviewed and made recommendation to the Board on the Company's policy and structure for all remuneration of Directors and senior management of the Company.

Review by nomination committee

Since 14 July 2009, the Company has established a nomination committee (the "Nomination Committee") with written terms of reference. The Nomination Committee currently comprises three independent non-executive directors, namely, Messrs. HE Peigang (as chairman), PANG Hong and CHAN Sek Nin, Jackey.

The nomination committee has reviewed the structure, size and composition of the Board.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	NOTES	Six months ended **1.1.2010 – 30.6.2010 HK$'000 (Unaudited)**	1.4.2009 – 30.9.2009 HK$'000 (Unaudited)
Continuing operations			
Turnover	3	**301,009**	39,367
Revenue	3	**92,114**	26,145
Cost of sales		**(53,444)**	(14,199)
Gross profit		**38,670**	11,946
Other income	5	**5,510**	75
(Loss) gain on disposal of held-for-trading investments		**(4,165)**	911
Gain on disposal of a subsidiary	10	**1,098**	956,784
Gain on disposal of jointly controlled entities	25	**1,651**	–
Decrease in fair value of convertible notes designated as financial assets at fair value through profit or loss	19	**(1,777)**	–
Increase in fair value of held-for-trading investments		**3,114**	1,021
Impairment loss on amount due from group companies		**–**	(925,607)
Equity-settled share-based expenses	26	**(29,467)**	–
Administrative and selling expenses		**(42,821)**	(20,127)
Other expenses		**–**	(5,537)
Finance costs	6	**(2,610)**	(896)
Share of results of associates		**–**	233
(Loss) profit before tax		**(30,797)**	18,803
Income tax credit (expense)	7	**2,159**	(5,569)
(Loss) profit for the period from continuing operations	9	**(28,638)**	13,234

	NOTES	Six months ended 1.1.2010 – 30.6.2010 HK$'000 (Unaudited)	1.4.2009 – 30.9.2009 HK$'000 (Unaudited)
Discontinued operation			
Loss for the period from discontinued operation	10	**–**	(20)
(Loss) profit for the period		**(28,638)**	13,214
Other comprehensive income			
Exchange differences arising on translation		**572**	20,489
Total comprehensive (expenses) income for the period		**(28,066)**	33,703
(Loss) profit for the period attributable to:			
– Owners of the Company		**(37,392)**	11,096
– Non-controlling interests		**8,754**	2,118
		(28,638)	13,214
Total comprehensive (expenses) income attributable to:			
– Owners of the Company		**(37,014)**	31,585
– Non-controlling interests		**8,948**	2,118
		(28,066)	33,703
(Loss) earnings per share from continuing and discontinued operations	11		
Basic and diluted (HK cents per share)		**(1.36)**	0.98
(Loss) earnings per share from continuing operations	11		
Basic and diluted (HK cents per share)		**(1.36)**	0.98

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

	NOTES	**30.6.2010 HK$'000 (Unaudited)**	31.12.2009 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	12	**62,131**	36,599
Interests in associates	13	**–**	–
Interests in jointly controlled entities	14	**–**	17,000
Deposit paid for acquisition of property, plant and equipment		**–**	5,533
Goodwill	15	**21,343**	21,343
		83,474	80,475
Current assets			
Inventories		**727**	518
Trade and other receivables	16	**89,591**	51,485
Films under production	17	**39,635**	7,000
Held-for-trading investments	18	**100,758**	73,257
Convertible notes designated as financial assets at fair value through profit or loss	19	**17,481**	19,258
Bank balances and cash	20	**294,450**	76,229
		542,642	227,747
Current liabilities			
Trade and other payables	21	**108,982**	87,077
Amounts due to related parties	22	**1,973**	14,928
Tax payable		**871**	6,674
		111,826	108,679
Net current assets		**430,816**	119,068
Total assets less current liabilities		**514,290**	199,543
Capital and reserves			
Share capital	24	**336,151**	251,878
Reserves		**159,327**	(62,199)
Equity attributable to owners of the Company		**495,478**	189,679
Non-controlling interests		**18,812**	9,864
Total equity		**514,290**	199,543

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

For the six months ended 30 September 2009

	Attributable to owners of the Company											
	Share capital HK$'000	Share premium HK$'000	Other reserve HK$'000 (Note (a))	Contributed surplus HK$'000 (Note (b))	Translation reserve HK$'000	Convertible notes reserve HK$'000	Statutory reserve HK$'000 (Note (c))	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 April 2009 (Audited)	31,407	44,150	–	31,172	(415)	–	–	–	(190,484)	(84,170)	–	(84,170)
Profit for the period	–	–	–	–	–	–	–	–	11,096	11,096	2,118	13,214
Other comprehensive income for the period	–	–	–	–	20,489	–	–	–	–	20,489	–	20,489
Total comprehensive income for the period	–	–	–	–	20,489	–	–	–	11,096	31,585	2,118	33,703
Reserves released upon disposal of subsidiaries	–	–	–	–	20,500	–	–	–	–	20,500	–	20,500
Ordinary shares issued under open offer	94,220	–	–	–	–	–	–	–	–	94,220	–	94,220
Ordinary shares issued for acquisition of subsidiaries	84,350	–	–	–	–	–	–	–	–	84,350	–	84,350
At 30 September 2009 (Unaudited)	209,977	44,150	–	31,172	40,574	–	–	–	(179,388)	146,485	2,118	148,603

For the six months ended 30 June 2010

	Attributable to owners of the Company											
	Share capital HK$'000	**Share premium HK$'000**	**Other reserve HK$'000** (Note (a))	**Contributed surplus HK$'000** (Note (b))	**Translation reserve HK$'000**	**Convertible notes reserve HK$'000**	**Statutory reserve HK$'000** (Note (c))	**Share option reserve HK$'000**	**Accumulated losses HK$'000**	**Total HK$'000**	**Non-controlling interests HK$'000**	**Total HK$'000**
At 1 January 2010 (Audited)	251,878	109,487	(36,615)	31,172	239	–	1,665	–	(168,147)	189,679	9,864	199,543
Loss for the period	–	–	–	–	–	–	–	–	(37,392)	(37,392)	8,754	(28,638)
Other comprehensive income for the period	–	–	–	–	378	–	–	–	–	378	194	572
Total comprehensive income for the period	–	–	–	–	378	–	–	–	(37,392)	(37,014)	8,948	(28,066)
Appropriations to statutory reserve funds	–	–	–	–	–	–	1,950	–	(1,950)	–	–	–
Recognition of equity component of convertible note	–	–	–	–	–	11,674	–	–	–	11,674	–	11,674
Conversion of convertible notes (note 23)	33,898	67,040	–	–	–	(11,674)	–	–	–	89,264	–	89,264
Recognition of equity-settled share-based payment	–	–	–	–	–	–	–	29,467	–	29,467	–	29,467
Placing of new shares	50,375	162,033	–	–	–	–	–	–	–	212,408	–	212,408
At 30 June 2010 (Unaudited)	336,151	338,560	(36,615)	31,172	617	–	3,615	29,467	(207,489)	495,478	18,812	514,290

Notes:

(a) Other reserve represented the difference between the fair value of the 843,500,000 ordinary shares issued for the acquisition of the entire equity interest in Colour Asia Pacific Limited ("Colour Asia") and the issued and fully paid up amount of such ordinary shares.

(b) The contributed surplus of the Group represented the balance of credit arising from the reduction of share capital and the cancellation of share premium in relation to the capital reorganisation in 1996 less the amount transferred to accumulated losses in relation to another capital reorganisation in the years ended 31 March 2003 and 2005 and the amount released from disposal of certain associates and distribution of dividends in prior years.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if: (a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

(c) As stipulated by the relevant laws and regulations for foreign investment enterprises in the People's Republic of China (the "PRC"), the Company's PRC subsidiaries are required to maintain a statutory surplus reserve fund. Appropriation to such reserve is made out of net profit after taxation as reflected in the statutory financial statements of the PRC subsidiaries while the amounts and allocation basis are decided by their board of directors annually. The statutory surplus reserve fund can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2010

	Six months ended	
	1.1.2010 –	1.4.2009 –
	30.6.2010	30.9.2009
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Cash (used in) generated from operations	**(90,782)**	53,921
Tax paid	**(3,644)**	(596)
Net cash (used in) from operating activities	**(94,426)**	53,325
Net cash from (used in) investing activities	**12,239**	(87,973)
Net cash from financing activities	**300,222**	59,486
Net increase in cash and cash equivalents	**218,035**	24,838
Cash and cash equivalents at 1 January 2010 / 1 April 2009	**76,229**	8,842
Effect of foreign exchange rate changes	**186**	–
Cash and cash equivalents at 30 June 2010 / 30 September 2009	**294,450**	33,680

1. BASIS OF PREPARATION

The condensed consolidated financial statements of SMI Corporation Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") has been prepared in accordance with the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with the International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board ("IASB").

First-time adoption of International Financial Reporting Standards ("IFRS")

The condensed consolidated financial statements up to 31 December 2009 had been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and the directors of the Company decided to prepare its condensed consolidated financial statements in accordance with IFRS for the reporting period from 1 January 2010 to 30 June 2010. The Group prepares its condensed consolidated financial statements in accordance with IFRS with effect from this reporting period and converted the comparative financial information for the six months ended 30 September 2009 to be in accordance with IFRS.

The directors of the Company believes the adoption of internationally recognised accounting standards will allow its financial statements to be better understood by its shareholders, the capital markets and the other users globally.

With due regard to the Group's accounting policies in previous periods and the requirements of IFRS, the directors of the Company has concluded that no adjustments were required to the amounts reported under HKFRSs as at 1 April 2009, the date of IFRS adoption, or in respect of the six months ended 30 September 2009. The adoption of IFRS has had no financial impact on the Group's financial position as at 1 April 2009, 31 December 2009 and 30 June 2010 or the Group's operating results or cash flows for the six months ended 30 September 2009 and 30 June 2010.

Change of financial year end date

The financial year end date of the Group was changed from 31 March to 31 December commencing from the financial period ended 31 December 2009. Accordingly, this set of interim results covers the six months period from 1 January 2010 to 30 June 2010 while the financial data of the previous interim reporting period was from 1 April 2009 to 30 September 2009. The corresponding comparative amounts shown for the condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows and related notes cover a six months period from 1 April 2009 to 30 September 2009 and therefore may not be comparable with amounts shown for the current period.

2. PRINCIPAL ACCOUNTING POLICIES

These condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those used in the preparation of the Group's annual financial statements for the period ended 31 December 2009, except for the adoption of new and revised IFRS as of 1 January 2010, noted below.

IFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions

The standard has been amended to clarify the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring for annual periods beginning on or after 1 July 2009. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

The changes by IFRS 3 (Revised) and IAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests.

The change in accounting policy was applied prospectively and had no material impact on earnings per share.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment had no effect on the financial position or performance of the Group.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

IFRIC 17 Distribution of Non-cash Assets to Owners

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation had no effect on the financial position or performance of the Group.

Improvements to IFRSs (issued May 2008)

In May 2008, the board of directors issued its first omnibus of amendments to its standards. All amendments issued are effective for the Group as at 31 December 2009, apart from the following:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment is applied prospectively and had no impact on the financial position or financial performance of the Group.

Improvements to IFRSs (issued April 2009)

In April 2009 the board of directors issued its second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

IFRS 8 Operating Segment Information: Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. The adoption of this amendment had no impact on the Group's operating segment disclosure.

IAS 7 Statement of Cash Flows: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment will impact the presentation in the statement of cash flows of the contingent consideration on the business combination completed in future upon cash settlement.

IAS 36 Impairment of Assets: The amendment clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Improvements to IFRSs (issued April 2009) (Continued)

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

IFRS 2	Share-based Payment
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations
IAS 1	Presentation of Financial Statements
IAS 17	Leases
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 16	Hedge of a Net Investment in a Foreign Operation

Issued but not yet effective International Financial Reporting Standards

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these condensed consolidated financial statements.

IFRS 1 Amendment	Limited Exemption from Comparatives HKFRS 7 Disclosures for First-time Adopters[2]
IFRS 9	Financial Instruments[4]
IAS 24 (Revised)	Related Party Disclosures[3]
IAS 32 Amendment	Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues[1]
IFRIC 14 Amendments	Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement[3]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments[2]
Improvements to IFRSs (Issued May 2010)	Amendments to a number of IFRSs

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

3. TURNOVER AND REVENUE

Turnover represents the amounts received and receivable from box office takings, screen advertising, sales of food and beverage, dividend income and trading of equity securities during the period from continuing operations. The details are as follow:

	1.1.2010 – 30.6.2010 HK$'000 (Unaudited)	1.4.2009 – 30.9.2009 HK$'000 (Unaudited)
Film exhibition		
– box office income	**81,457**	25,561
– screen advertising income	**970**	–
Sales of food and beverage	**9,687**	584
Proceeds from held-for-trading investments	**208,679**	13,172
Dividend income from held-for-trading investments	**216**	50
	301,009	39,367

An analysis of the Group's revenue for the period from continuing operations are as follows:

	1.1.2010 – 30.6.2010 HK$'000 (Unaudited)	1.4.2009 – 30.9.2009 HK$'000 (Unaudited)
Film exhibition		
– box office income	**81,457**	25,561
– screen advertising income	**970**	–
Sales of food and beverage	**9,687**	584
	92,114	26,145

4. SEGMENT INFORMATION

The Group's operating and reportable segments, based on information report to chief operating decision maker, for the purposes of resources allocation and performance assessment are as follows:

(a) Film exhibition – box office income and screen advertising income

(b) Cafe bars – sales food and beverage

(c) Securities trading – trading of marketable securities

(d) Film production and distribution – production and distribution of films.

Information regarding the above segments is reported below.

Operating segments

The following tables present revenue and profit information regarding the Group's reportable segments for the six months ended 30 June 2010 and 30 September 2009.

	Segment revenue		Segment result	
	1.1.2010 – 30.6.2010 HK$'000 (Unaudited)	1.4.2009 – 30.9.2009 HK$'000 (Unaudited)	**1.1.2010 – 30.6.2010 HK$'000 (Unaudited)**	1.4.2009 – 30.9.2009 HK$'000 (Unaudited)
Film exhibition	**82,427**	25,561	**18,962**	4,716
Café bars	**9,687**	584	**4,205**	109
Securities trading	**–**	–	**(835)**	1,982
Film production and distribution	**–**	–	**–**	–
	92,114	26,145	**22,332**	6,807
Unallocated income			**5,294**	7,146
Unallocated expenses			**(27,318)**	(25,664)
Finance costs			**(2,610)**	(896)
Share of results of associate			**–**	233
Impairment of amounts due from group companies			**–**	(925,607)
Decrease in fair value of convertible notes designated as financial assets at fair value through profit or loss			**(1,777)**	–
Equity-settled share-based payment			**(29,467)**	–
Gain on disposal of a subsidiary			**1,098**	956,784
Gain on disposal of jointly controlled entities			**1,651**	–
(Loss) profit before tax from continuing operations			**(30,797)**	18,803

4. **SEGMENT INFORMATION *(Continued)***

Operating segments (Continued)

Note:

Revenue reported above represents revenue generated from external customers. The Group did not generate inter-segment sales during the period (30 September 2009: HK$nil).

The following table presents segment assets of the Group's operating segments as at 30 June 2010 and 31 December 2009:

Segment assets

	30.6.2010	31.12.2009
	HK$'000	HK$'000
	(Unaudited)	(Audited)
Continuing operations		
Film exhibition	**118,135**	97,744
Café bars	**10,908**	390
Securities trading	**102,539**	79,525
Film production and distribution	**39,635**	7,000
Total segment assets	**271,217**	184,659
Unallocated	**354,899**	123,563
Consolidated asset	**626,116**	308,222

5. OTHER INCOME

	1.1.2010 – 30.6.2010 HK$'000 (Unaudited)	1.4.2009 – 30.9.2009 HK$'000 (Unaudited)
Continuing operations		
Bank interest income	**559**	1
Dividend income from held-for-trading investments	**216**	50
Interest income from convertible notes designated as financial assets at fair value through profit or loss	**444**	–
Government grants	**3,849**	–
Sundry Income	**442**	24
	5,510	75

6. FINANCE COSTS

	1.1.2010 – 30.6.2010 HK$'000 (Unaudited)	1.4.2009 – 30.9.2009 HK$'000 (Unaudited)
Continuing operations		
Interest on:		
– Bank loans wholly repayable within the year	**–**	713
– Other borrowings wholly repayable within the year	**1,653**	183
– Effective interest expenses on convertible notes (note 23)	**957**	–
	2,610	896

7. INCOME TAX CREDIT (EXPENSE)

	1.1.2010 – 30.6.2010 HK$'000 (Unaudited)	1.4.2009 – 30.9.2009 HK$'000 (Unaudited)
Current tax:		
– Hong Kong Profits Tax	**(9)**	–
– PRC Enterprises Income Tax	**(2,731)**	(5,569)
	(2,740)	(5,569)
Over provision in prior years (note)		
– PRC Enterprises Income Tax	**4,899**	–
	2,159	(5,569)

Note:

Over Provision in prior years represented a profits tax exemption granted by the PRC government to a subsidiary during the period on the profits generated for the year ended 31 December 2009. The subsidiaries were recognised as a "Newly Formed Cultural Enterprise"（新辦文化企業）by the PRC government and was entitled to a tax holiday.

8. INTERIM DIVIDEND

No dividend was paid or proposed during the six months ended 30 June 2010 and 30 September 2009.

9. (LOSS) PROFIT FOR THE PERIOD

(Loss) profit for the period has been arrived at after charging:

	1.1.2010 – 30.6.2010 HK$'000 (Unaudited)	1.4.2009 – 30.9.2009 HK$'000 (Unaudited)
Continuing operations		
Auditor's remuneration	**260**	327
Directors' emoluments	**1,540**	1,031
Staff cost:		
– salaries, bonus and allowances	**5,984**	1,887
– retirement benefits scheme contributions	**462**	13
	6,446	1,900
Cost of inventories recognised as an expenses (excluding staff costs and depreciation on property, plant and equipment)	**3,800**	686
Depreciation on property, plant and equipment	**2,962**	2,587
Operating lease charges of land and buildings		
– minimum lease payments	**1,864**	2,646
– contingent rent (note)	**5,885**	–

Note:

Contingent rent represented the variable rent portion of the rented cinema premises which is charged at a rate based on the turnover generated from box office.

10. DISCONTINUED OPERATION / DISPOSAL OF A SUBSIDIARY

On 10 July 2009, the creditors' meetings of twelve wholly owned subsidiaries incorporated in Hong Kong, namely East Glory Development Limited, Universe Link Industries Limited, Cornhill Development Limited, Lucky Group Investment Limited, Liberway Limited, Wide Treasure Limited, Lucky Cosmos Limited, Star East On-Line Limited, Star East Culture Development Limited, Risesoft Limited, Star East IT Management Limited and SMI Entertainment Limited were held and completed. Apart from the creditors' meeting of SMI Entertainment Limited ("SMIE"), there was no quorum of creditors present or represented at the creditors' meetings of the subsidiaries as required under Rules 123(1) of the Companies (Winding-Up) Rules (the "Required Quorum"). At the adjourned creditors' meetings of the subsidiaries (save for SMIE) held on 21 July 2009, there was no Required Quorum again. As a result, no further adjournment of creditors' meetings of any of the HK Subsidiaries was required.

On 17 July 2009, the creditors' meetings of six wholly owned subsidiaries incorporated in BVI, namely Precious Days Limited, Lane Smart Holdings Limited, Magnetic Light Profits Limited, Risesoft Holdings Limited, Strong Target Limited and Start East (Japan) Limited, were held and completed. At the meetings, the appointments of joint liquidators were ratified since no other persons were nominated by the creditors of the subsidiaries.

On 7 April 2009, the Tokyo District Court had made a judgment against Planet Hollywood (Japan) K.K. ("PHJ"), a wholly owned subsidiary of the Group, that it was obliged to pay The Disney Store Japan ("TDSJ") the outstanding rental expenses being claimed. Subsequently on 12 April, 2009, PHJ closed its operation and vacated the premises.

Since the completion of the creditor's meetings and Group reorganization, the assets, liabilities and financial results of each of the above mentioned subsidiaries have been disposed of during the period.

10. **DISCONTINUED OPERATION / DISPOSAL OF A SUBSIDIARY *(Continued)***

The loss for the period from the discontinued operation for the relevant periods is analysed as follows:

	1.4.2009 – 30.9.2009 HK$'000 (Unaudited)
Turnover	–
Cost of sales	–
Direct expense	–
Gross loss	–
Other income	–
Administrative expenses	(20)
Loss before tax	(20)
Income tax expenses	–
Loss after tax	(20)

Cash flows from discontinued operation:

	HK$'000 (Unaudited)
Accumulative losses disposed of	(977,991)
Reclassification adjustment for translation reserve upon disposal of a subsidiary	20,500
Receivables forfeited upon disposal	1,007
	(956,484)
Gain on disposal	956,784
Total consideration	300
Net cash outflow arising from disposal:	
Total cash consideration received	300
Bank balance and cash disposed of	(1,146)
	(846)

10. DISCONTINUED OPERATION / DISPOSAL OF A SUBSIDIARY *(Continued)*

On 26 May 2010, On-Site Investments Limited, a wholly-owned subsidiary of the Group, entered into a sale and purchase agreement with Jiao Erli, an independent third party of the Group, to dispose of the entire equity interest in Discover China Production Limited ("Discover China") at a cash consideration of HK$1,000,000. The net liabilities of Discover China at the date of disposal were as follows:

	26 May 2010 HK$'000 (Unaudited)
Net liabilities disposed of:	
Other receivables	3
Trade and other payables	(210)
	(207)
Gain on disposal of a subsidiary	1,098
Total consideration	891
Total consideration satisfied by:	
Cash	200
Deferred consideration	691
	891
Net cash inflow arising on disposal:	
Cash consideration	200

The deferred consideration will be settled in cash over a period of three years and will be fully settled on or before 31 May 2013.

The disposal of the subsidiary did not result in significant impact on the Group's cash flow or operating results for the period.

11. (LOSS) EARNINGS PER SHARE

For continuing and discontinued operation

The calculation of the basic and diluted (loss) earnings per share attributable to the owners of the Company are based on the following data:

	1.1.2010 – 30.6.2010 HK$'000 (Unaudited)	1.4.2009 – 30.9.2009 HK$'000 (Unaudited)
(Loss) profit for the period attributable to owners of the Company for the purpose of basic (loss) earnings per shares	**(37,392)**	11,096
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	**957**	–
(Loss) earnings for the purpose of diluted (loss) earnings per share	**(36,435)**	11,096
Number of shares	**'000**	'000
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**2,759,485**	1,137,317
Effect of dilutive potential ordinary shares:		
– convertible notes	**116,761**	–
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	**2,876,246**	1,137,317

11. (LOSS) EARNINGS PER SHARE *(Continued)*

From continuing operations

The calculation of the basic (loss) earnings per share from continuing operations attributable to the owners of the Company is based on the following data:

	1.1.2010 – 30.6.2010 HK$'000 (Unaudited)	1.4.2009 – 30.9.2009 HK$'000 (Unaudited)
(Loss) profit for the period attributable to owners of the Company	**(37,392)**	11,096
Add: Loss for the period from discontinued operations	**–**	(20)
(Loss) profit for the purpose of basic (loss) earning per share from continuing operations	**(37,392)**	11,116
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	**957**	–
(Loss) earning for the purpose of diluted earnings per share from continuing operations	**(36,435)**	11,116

The denominators used are the same as those detailed above for basic and diluted (loss) earnings per share.

From discontinued operation

Basic loss per share for the discontinued operation is HK$nil cents per share (30 September 2009: HK$nil) and diluted loss per share for the discontinued operation is HK$nil (30 September 2009: HK$nil), based on the results for the period from discontinued operations of HK$nil (30 September 2009: loss of approximately HK$20,000) and the denominators detailed above for basic (loss) earnings per share.

Diluted loss per share

Diluted loss per share and basic loss per share for the six months ended 30 June 2010 were the same as the conversion of convertible notes and exercise of share options would result in reduction in loss per share.

12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2010, the Group incurred approximately HK$12,145,000 and HK$15,965,000 (30 September 2009: HK$2,268,000 and HK$nil respectively) respectively on addition to property, plant and equipment and construction in progress.

13. INTERESTS IN ASSOCIATES

	30.6.2010 HK$'000 (Unaudited)	31.12.2009 HK$'000 (Audited)
Share of net assets other than goodwill	**2,163**	2,163
Goodwill	**2,010**	2,010
	4,173	4,173
Amount due from Applause Holdings Limited	**14,016**	14,016
	18,189	18,189
Less: accumulated impairment loss	**(18,189)**	(18,189)
	–	–

The amounts due from associates were unsecured, interest-free and have no fixed repayment terms.

Details of the associates of the Group which are held indirectly by the Company are as follows:

Name	Place of incorporation / registration and operation	Forms of business structure	Percentage of ownership interest / voting power / profit sharing		Principal activities
			30.6.2010	31.12.2009	
星美影院發展	The PRC	Equity joint venture	**25%**	25%	Movie distribution and exhibition
Applause Holdings Limited	British Virgin Islands	Incorporated	**40%**	40%	Movie production and distribution

The above associates are limited liability companies incorporated in their respective jurisdictions.

14. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	30.6.2010	31.12.2009
	HK$'000	HK$'000
	(Unaudited)	(Audited)
Share of net assets	**–**	–
Amounts due from jointly controlled entities	**–**	26,685
	–	26,685
Less: accumulated impairment losses	**–**	(9,685)
	–	17,000

During the six months ended 30 June 2010, all jointly controlled entities were disposed to Farnell Venture Inc. and Loyal Idea Limited, two independent third parties, at consideration of HK$18,651,000 (note 25).

15. GOODWILL

	HK$'000
Carrying values	
At 30 June 2010 (Unaudited)	21,343
At 31 December 2009 (Audited)	21,343

Goodwill arose from the acquisition of Colour Asia Pacific Limited ("Colour Asia") and Step Delight Limited ("Step Delight") in July 2009 and November 2009 respectively.

Impairment testing on goodwill

Goodwill acquired through business combination of Colour Asia in the period ended 31 December 2009 had been allocated to film exhibition cash-generating units, which is a reportable segment, for impairment testing. Goodwill acquired through business combination of Step Delight in 2009 had been allocated to provision for entertainment arts education cash-generating units, which is not a separate reportable segment, for impairment testing.

15. GOODWILL *(Continued)*

The carrying amount of goodwill was allocated to cash-generating units as follows:

	30.6.2010	31.12.2009
	HK$'000	HK$'000
	(Unaudited)	(Audited)
Film exhibition	**15,431**	15,431
Provision of entertainment arts education	**5,912**	5,912
	21,343	21,343

Film exhibition

The recoverable amount of the film exhibition segment and cash-generating unit is determined based on a value-in-use calculation which uses cash flow projections based on financial budgets approved by the directors covering a five-year period, and a discount rate of 8% per annum. This growth rate is based on the relevant industry growth forecasts and does not exceed the average growth rate for the relevant industry. Cash flows beyond that five-year period have been extrapolated using a steady 5% growth rate. Other key assumptions for the value-in-use calculations relate to the estimation of cash inflows / outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development.

The directors of the Company believe that any reasonably possible change in the key assumptions on which the recoverable amount based would not cause the carrying amount of the unit to exceed the aggregate recoverable amount of the cash-generating unit.

Provision of entertainment arts education

Step Delight was principally engaged in the provision of entertainment arts education and training services. The recoverable amount of the investment in Step Delight has been determined using the discounted cash flow approach, based on the valuation performed by Greater China Appraisal Limited, an independent valuer to the Group.

That calculation uses cash flow projections based on the financial budgets approved by management covering five-year period, and discount rate of 20.09%. Cash flow projections during the budget period are based on the expected market demand in the entertainment arts education and training courses and gross margins. The directors of the Company believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed the aggregate recoverable amount of the cash generating unit.

16. TRADE AND OTHER RECEIVABLES

	30.6.2010	31.12.2009
	HK$'000	HK$'000
	(Unaudited)	(Audited)
Trade receivables	**2,206**	6,788
Deposits	**6,859**	3,010
Margin deposit placed with a financial institution (Note a)	**1,781**	6,268
Amount due from a non-controlling shareholder of a subsidiary	**11,134**	10,029
Prepayments and other receivables (Note b)	**67,611**	25,390
	89,591	51,485

Notes:

(a) The deposits are placed with a financial institution for trading of securities. The deposits carried interest at market rates at 0.01% per annums. The amounts are secured and repayable on demand.

(b) Included in the prepayments and other receivables of approximately of HK$10,023,000 was guaranteed by a non-controlling shareholder of a subsidiary. The amount is unsecured, interest-free and repayable on demand.

The Group allows an average credit period of 90 days to its trade customers. The aging analysis of the Group's trade receivables based on the invoice date at end of reporting period is as follow:

	30.6.2010	31.12.2009
	HK$'000	HK$'000
	(Unaudited)	(Audited)
0 to 30 days	**1,569**	4,839
31 to 90 days	**637**	1,949
	2,206	6,788

As at 30 June 2010 and 31 December 2009, no trade receivable balances are past due as at reporting dates for which the Group has not provided for impairment loss.

Impairment loss on other receivables are recorded using an allowance account unless the Group is satisfied that the recovery of the amount is remote, in which case the impairment loss is written off against other receivable balance directly.

16. TRADE AND OTHER RECEIVABLES *(Continued)*

The movement in the impairment loss of other receivables is as follow:

	30.6.2010	31.12.2009
	HK$'000	HK$'000
	(Unaudited)	(Audited)
Balance at the beginning of the period / year	**49**	–
Impairment loss recognised	**361**	49
Balance at the end of the period / year	**410**	49

At the end of each reporting period, the Group's other receivables were individually to be impaired. The individually impaired receivables are recognised based on the credit history of the counterparties, such as financial difficulties or default in payments. Consequently, specific impairment loss was recognised.

The Group does not hold any collateral over trade and other receivables.

17. FILMS UNDER PRODUCTION

	30.6.2010	31.12.2009
	HK$'000	HK$'000
	(Unaudited)	(Audited)
Films under production	**39,635**	7,000

18. HELD-FOR-TRADING INVESTMENTS

	30.6.2010	31.12.2009
	HK$'000	HK$'000
	(Unaudited)	(Audited)
Listed securities held-for-trading, at fair value		
– Equity securities listed in Hong Kong	**100,758**	73,257

The fair values of the above listed securities are determined based on the quoted market bid prices available on the Stock Exchange Hong Kong Limited.

At 30 June 2010, the Group's held-for-trading investments amounting to HK$49,927,000 (31 December 2009: HK$60,884,000) were pledged to secure margin account facilities granted to the Group.

19. CONVERTIBLE NOTES DESIGNATED AS FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30.6.2010	31.12.2009
	HK$'000	HK$'000
	(Unaudited)	(Audited)
Convertible notes designated as financial assets at fair value through profit or loss	**17,481**	19,258

During the period ended 31 December 2009, the Group acquired a 5% coupon rate convertible notes, with the maturity date on 2 November 2011, with a principal amount of HK$18,000,000 issued by ITC Corporation Limited ("ITC"), a company listed on the Stock Exchange of Hong Kong Limited. The convertible notes can be converted, in amounts of not less than HK$1,000,000, into new ordinary shares of ITC at any time within a period of two years following the date of issue at a conversion price of HK$0.50 per share. No early redemption is allowed. The Group has designated the convertible notes as financial assets at fair value through profit or loss.

A fair value loss of approximately HK$1,777,000 was recorded for the six months ended 30 June 2010 (for the six months ended 30 September 2009: HK$nil).

The fair value of the convertible notes at 30 June 2010 have been arrived at on the basis of a valuation carried out on that date by Roma Appraisals Limited, independent qualified professional valuers not connected to the Group. Roma Appraisals Limited is member of the Hong Kong Institute of Surveyors, and has appropriate qualifications and recent experiences in the valuation of similar financial assets. Black-Scholes option pricing model is used for valuation for conversion option element of convertible notes designated as financial assets at fair value through profit or loss.

At 30 June 2010, the Group's convertible notes designated as financial assets at fair value through profit or loss amounted to approximately HK$17,481,000 (31 December 2009: HK$19,258,000) were pledged to secure margin account facilities granted to the Group.

20. BANK BALANCES AND CASH

Bank balances carry interest at market rates which range from 0% to 0.01% (31 December 2009: 0% to 0.01%) per annum.

As at 30 June 2010, the bank balances and cash of the Group denominated in RMB amounted to approximately HK$8,042,000 (31 December 2009: HK$5,435,000).

21. TRADE AND OTHER PAYABLES

	30.6.2010	31.12.2009
	HK$'000	HK$'000
	(Unaudited)	(Audited)
Trade payables	**6,956**	18,181
Customers' deposits	**16,568**	16,010
PRC business and other tax payables	**42**	618
Payroll and welfare payables	**2,642**	847
Margin payable due to financial institutions (note)	**46,986**	34,315
Accrued charges and other payable	**35,788**	17,106
	108,982	87,077

Note: The margin payable due to financial institutions are secured and repayable on demand. The interest rates are range from 8% to 9.25% per annum.

The average credit period on purchases of goods is 30 to 60 days. The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	30.6.2010	31.12.2009
	HK$'000	HK$'000
	(Unaudited)	(Audited)
Up to 30 days	**2,651**	7,917
31 to 60 days	**235**	6,459
Over 60 days	**4,070**	3,805
	6,956	18,181

22. AMOUNTS DUE TO RELATED PARTIES

	30.6.2010	31.12.2009
	HK$'000	HK$'000
	(Unaudited)	(Audited)
SMIL (note a)	**1,051**	1,051
Mr. Qin Hui (note b)	**922**	13,877
	1,973	14,928

The amounts are unsecured, interest-free and repayable on demand.

Note a: SMIL is the ultimate holding company of the Company.

Note b: Mr. Qin Hui is the beneficial owner of SMIL.

23. CONVERTIBLE NOTES

The Company issued a 2-year 1% convertible notes ("Convertible Notes") with principal amount of HK$100,000,000 on 5 March 2010 to Mr. Qin Hui. The Convertible Notes are denominated in Hong Kong dollars and entitles the holder to convert it into ordinary shares of the Company at any business days after the date of issue of the Convertible Notes up to and including the date which is 7 business days prior to the maturity date on 4 March 2012 at a conversion price of HK$0.295. If the Convertible Notes has not been converted, they will be redeemed the Convertible Note at 100% of its principal amount on the maturity date.

The Convertible Notes contain two components, liability and equity element. The equity element is presented in equity as convertible notes reserve. The effective interest rate of the liability component is 7.5%.

On 6 May 2010, Convertible Notes in aggregate principal amounts of HK$100,000,000 were converted into 338,983,050 new ordinary shares of the Company at a conversion price of HK$0.295 per share.

The movement of the liability component of the Convertible Notes for the six months ended 30 June 2010 is set out below:

	HK$'000
At issue date, net of issuing costs	88,307
Effective interest charge	957
Conversion of Convertible Notes	(89,264)
Carrying amount at 30 June 2010 (unaudited)	–

24. SHARE CAPITAL

	Number of shares '000	Share capital HK$'000
Authorised:		
Ordinary shares of HK$0.1 each		
At 1 April 2009, 31 December 2009, 1 January 2010 and 30 June 2010	5,000,000	500,000
Issued and fully paid:		
Ordinary shares of HK$0.1 each		
At 1 April 2009 (audited)	314,069	31,407
Issue of shares – open offer	942,206	94,221
Issue of shares – acquisition of subsidiaries	843,500	84,350
Issue of shares – placing	269,000	26,900
Issue of shares – conversion of convertible notes on 3 December 2009	15,000	1,500
Issue of shares – conversion of convertible notes on 11 December 2009	113,000	11,300
Issue of shares – conversion of convertible notes on 22 December 2009	22,000	2,200
At 31 December 2009 and 1 January 2010 (audited)	2,518,775	251,878
Issue of shares – conversion of convertible notes on 6 May 2010 (Note (a))	338,983	33,898
Issue of shares – placing (Note (b))	503,752	50,375
At 30 June 2010 (unaudited)	3,361,510	336,151

Notes:

(a) In May 2010, the convertible note holders exercised their conversion rights to convert the convertible notes of HK$100,000,000 into the Company's ordinary shares of 338,983,050 shares at a conversion price of HK$0.295 per ordinary share. Note 23 sets out the details of the convertible notes.

24. SHARE CAPITAL *(Continued)*

(b) In May 2010, the Company entered into a placing agreement pursuant to which the Company could issue, a maximum of 503,752,000 new shares of HK$0.1 each at the subscription price of HK$0.435 per share. The gross proceeds from this were approximately HK$219,130,000. Also, placing agreement was completed and the 503,752,000 new shares in the Company were duly issued and allotted in May 2010. Further details of the above transactions are set out in the announcement of the Company dated 12 May 2010.

All the shares which were issued during the period rank pari passu with the then existing shares in all respects.

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the current period.

25. DISPOSAL OF JOINTLY CONTROLLED ENTITIES

On 11 February 2010, Fung Ming Venture Ltd, a wholly owned subsidiary of the Group, entered into a sale and purchase agreement with Farnell Venture Inc. and Loyal Idea Limited, two independent third parties of the Group, to dispose 50% equity interest in Canaria Holding Limited (the "Canaria") and loan to Canaria of approximately HK$17,000,000, at a cash consideration of HK$18,651,000. The carrying value of jointly controlled entities and loan to Canaria at the date of disposal were as follows:

	11 February 2010 HK$'000 (Unaudited)
Assets disposed of:	
Interests in jointly controlled entities	–
Loan to Canaria	17,000
	17,000
Gain on disposal of a jointly controlled entity	1,651
Total consideration	18,651
Total consideration satisfied by:	
Cash	18,651
Net cash inflow arising on disposal:	
Cash consideration	18,651

26. SHARE-BASED PAYMENT TRANSACTION

On 30 September 2009, an ordinary resolution was proposed at the special general meeting to approve the adoption of a new share option scheme ("New Share Option Scheme") and termination of the operation of the old share option scheme. The resolution was approved by the shareholders and the New Share Option scheme became effective for a period of 10 years commencing on 30 September 2009. Option granted during the life of the 2002 old share option scheme and remain unexpired prior to the expiry of the 2002 old share option Scheme shall continue to be exercisable in accordance with their terms of issue after the expiry of the 2002 old share option scheme.

Under the New Share Option Scheme, the consideration paid for each grant of share options will be HK$1.00. The subscription price shall be determined by the board of directors and notified to a participant and shall be at least the higher of: (i) the closing price of the shares of the Company as stated in the Stock Exchange of Hong Kong Limited's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange of Hong Kong Limited's daily quotation sheets for the 5 business days immediately preceding the date of grant; and (iii) the nominal value of a share. Details of the principal terms of the New Share Option Scheme were summarised and set out in a circular to shareholders dated 9 September 2009.

During the six months ended 30 June 2010, total numbers of share options 546,126,507 were granted to consultants, directors and senior management of the Company. Details of specific categories of share options are as follows:

	Date of grant	Exercise period	Exercise price	Number of share options granted
May 2010	3 May 2010	3.5.2010 – 2.5.2011	HK$0.57	209,975,500
June 2010 (Lot A)	11 June 2010	11.6.2010 – 10.6.2013	HK$0.51	139,075,507
June 2010 (Lot B)	11 June 2010	11.6.2010 – 10.6.2011	HK$0.51	197,075,500

26. SHARE-BASED PAYMENT TRANSACTION *(Continued)*

The fair value of the options granted is estimated at the date of grant using a Trinomial option pricing method taking into account the terms and conditions upon which the options were granted. The fair value of options granted during the six months ended 30 June 2010 was estimated on the date of grant using the following assumptions:

Date of grant	3 May 2010
Dividend yield (%)	Nil
Expected volatility (%)	41.566
Risk-free interest rate (%)	0.145
Expected life (years)	1
Weighted average share price	0.572

Date of grant (Lot A)	11 June 2010
Dividend yield (%)	Nil
Expected volatility (%)	46.519
Risk-free interest rate (%)	0.415
Expected life (years)	3
Weighted average share price	0.504

Date of grant (Lot B)	11 June 2010
Dividend yield (%)	Nil
Expected volatility (%)	46.519
Risk-free interest rate (%)	0.415
Expected life (years)	1
Weighted average share price	0.504

27. LEASE COMMITMENTS

At 30 June 2010, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	30.6.2010	31.12.2009
	HK$'000	HK$'000
	(Unaudited)	(Audited)
Within one year	29,290	23,714
In the second to fifth years inclusive	91,111	92,941
After five years	209,999	193,717
	330,400	310,372

Except the lease in respect of two cinema premises in the PRC which have a lease term of 15 years, leases are negotiated for an average term of 2 years.

The above lease commitments only include commitments for basic rentals, and do not include commitments for additional rental payable (contingent rents), if any, which are to be determined generally by applying pre-determined percentages to future revenue less the basic rentals of the respective leases, as it is not possible in advance the amount of such additional rentals.

28. OTHER COMMITMENTS

	30.6.2010	31.12.2009
	HK$'000	HK$'000
	(Unaudited)	(Audited)
Amount contracted for but not provided in the condensed consolidated financial statements in respect of:		
Films under production	44,552	1,575

29. RELATED PARTY TRANSACTIONS

The Group entered into the following transaction with related parties during the six months ended 30 June 2010 and 30 September 2009.

Compensation to key management

The remuneration of directors and other members of key management during the six months ended 30 June 2010 and 30 September 2009 were as follows:

	1.1.2010 – 30.6.2010 HK$'000 (Unaudited)	1.4.2009 – 30.9.2009 HK$'000 (Unaudited)
Salaries and other benefits	**1,540**	1,031
Retirement benefits scheme contributions	**2**	–
	1,542	1,031

30. EVENTS AFTER THE REPORTING PERIOD

(a) Subsequent to 30 June 2010, the acquisition of interests in twelve movie theaters in the PRC at a consideration of HK$1,200,000,000, from Mr. Qin Hui, a controlling shareholder of the Company, was completed. Details are set out in the circular dated 26 June 2010.

(b) Subsequent to 30 June 2010, SMI International Cinemas Limited ("SMIIC"), a wholly-owned subsidiary of the Company entered into an agreement with Xingmei Investment Co., Ltd ("Xingmei"), for the acquisition of rights and obligation in building lease contract in respect of 25 cinemas in the PRC at a cash consideration of HK$55,000,000. Details are set out in the Company's announcement on 26 July 2010, 2 August 2010 and 24 August 2010.

(c) Subsequent to 30 June 2010, Full Favour Limited, a wholly-owned subsidiary of the Company entered into an agreement with Applause Communication Limited, an independent third party, dispose of 40% equity interest in Applause Holdings Limited and its subsidiaries, and the loans to Star East Management Limited for a consideration of HK$4,000,000.

31. CONTINGENT LIABILITIES

The Group had the following outstanding litigations as at 30 June 2010 that the directors of the Company are of the opinion that the estimated contingent liabilities arising from the litigations cannot be reasonably ascertained at the current stage.

(a) On 8 November 2007, Tilpifa Company Limited (an independent third party) issued a writ of summons against Star East Management Limited ("Star East Management"), a subsidiary of the Company, claiming the money due on it amounting to approximately HK$263,000.

(b) Legal actions have also been taken against an associate company of the Group, M Channel. M Channel was sued for debts as brought about by The Stock Exchange, Composers and Authors Society of Hong Kong Limited, Lu Lai & Li and Charltons in the amount of HK$150,000, HK$1,247,000, HK$723,000 and HK$303,000 respectively. The Company, at this stage, is unable to ascertain if the aforesaid proceedings will have any material and adverse impact on the financial position, cash flow and business operations of the Company.

32. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation of the current period and such reclassification has no impact on the Group's loss for the six months ended 30 September 2009.

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