星 美 國 際

SMI CORPORATION LIMITED

(Provisional Liquidators Appointed)

星美國際集團有限公司*

(已委任臨時清盤人)

(Incorporated in Bermuda with limited liability)

(Stock Code: 198)

ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2007

The board of directors (the “Directors”) of SMI Corporation Limited (Provisional Liquidators Appointed) (the “Company”) announces the audited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 March 2007 together with comparative figures for the year ended 31 March 2006 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2007

	Notes	**2007** *HK$’000*	2006 *HK$’000*
Turnover	*3*	**38,797**	59,617
Cost of sales		**(9,210)**	(39,516)
Direct expenses		**(35,137)**	(40,650)
		(5,550)	(20,549)
Other income and gains, net	*4*	**986**	1,341
Distribution costs		**(18)**	(392)
Administrative expenses		**(14,350)**	(27,428)
Other operating expenses		**(3,287)**	(1,116)
Loss from operations	*5*	**(22,219)**	(48,144)
Finance costs	*6*	**(3,816)**	(2,825)
Share of results of associates		**1,070**	1,948
Loss before taxation		**(24,965)**	(49,021)
Taxation	*7*	**(15)**	(24)
Loss for the year		**(24,980)**	(49,045)

* *For identification purpose only*

	Notes	**2007**	2006
		HK$'000	*HK$'000*
Attributable to:			
Equity holders of the Company		**(24,980)**	(49,045)
Minority interests		**–**	–
		(24,980)	(49,045)
Basic loss per share attributable to the equity holders of the Company during the year	*8*	**(8.0) cents**	(15.6) cents

CONSOLIDATED BALANCE SHEET

As at 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment		**4,834**	9,575
Investment properties		**–**	–
Intangible assets		**15**	22
Interests in associates		**52,828**	53,024
Interests in jointly controlled entities		**32,831**	32,538
Deposit paid on acquisition of an investment		**–**	–
Available-for-sale financial asset		**–**	–
		90,508	95,159
Current assets			
Inventories		**2,462**	2,703
Trade and other receivables	*9*	**37,197**	40,913
Tax refundable		**–**	2,390
Pledged bank deposits		**–**	24,799
Cash and bank balances		**835**	688
		40,494	71,493
Current liabilities			
Trade and other payables	*10*	**61,658**	55,783
Tax payable		**1,992**	1,992
Bank and other borrowings – due within one year		**31,284**	28,934
Obligation under a finance lease			
– due within one year		**–**	70
		94,934	86,779
Net current liabilities		**(54,440)**	(15,286)
Total assets less current liabilities		**36,068**	79,873

	2007	2006
	HK$'000	*HK$'000*
Non-current liabilities		
Bank and other borrowings – due after one year	**–**	19,839
Obligation under a finance lease		
– due after one year	**–**	7
	–	19,846
Net assets	**36,068**	60,027
Equity		
Capital and reserves attributable to the Company's equity holders:		
Share capital	**31,407**	31,407
Share premium	**44,150**	44,150
Other reserves	**32,309**	31,288
Accumulated losses	**(71,798)**	(46,818)
	36,068	60,027
Minority interests	**–**	–
Total equity	**36,068**	60,027

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Statement of compliance with Hong Kong Financial Reporting Standards ("HKFRSs")

The consolidated financial statements for the year ended 31 March 2007 of the Group (the "Consolidated Financial Statements") have been prepared in accordance with accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The Consolidated Financial Statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Consolidated Financial Statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities and investment properties, which are carried at fair value.

The preparation of the Consolidated Financial Statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires the Company's management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements, are disclosed in note 6 to the Consolidated Financial Statements.

2. Basis of preparation

(a) General

The Company is incorporated in Bermuda as an exempted company with limited liability. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's shares have been suspended for trading on the Stock Exchange since 28 April 2005.

On 28 September 2007, the Company was placed at 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, the Bank of China (Hong Kong) Limited (the "BOCHK") presented a winding-up petition to the Court of First Instance of the High Court (the "High Court") of Hong Kong Special Administrative Region to wind up the Company because the Company was unable to pay its debts. On 19 February 2008, BOCHK made an application to the High Court for the appointment of provisional liquidators of the Company.

By Order (the "Order") of the Honourable Justice Barma of the High Court dated 20 February 2008, Mr. Liu Yiu Keung, Stephen and Ms. Chan Wai Hing, both of Ernst & Young Transactions Limited, have been appointed as the joint and several provisional liquidators (the "Provisional Liquidators") of the Company. By the Order, the Provisional Liquidators will, inter alia, take into their custody and protect all the assets of the Group and manage the Group until such time as further order is made.

The Provisional Liquidators are taking necessary procedures for an application for resumption of trading of the Company's shares on the Main Board of the Stock Exchange, including the submission of a viable resumption proposal to the Stock Exchange.

(b) Going concern

The Group had net current liabilities of approximately HK$54,440,000 as at 31 March 2007 and incurred a significant loss of approximately HK$24,980,000 for the year ended 31 March 2007. The Group's liquidity position significantly deteriorated during the year. Bank loans from BOCHK had not been repaid in accordance with the relevant terms. In view of the above, the Directors consider that it is appropriate to reclassify the indebtedness of approximately HK$17,203,000 due to BOCHK as current liabilities.

In preparing the Consolidated 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, a financial adviser has been retained by the Provisional Liquidators with a view to restructure the Company and has submitted a resumption proposal (the "Resumption Proposal") to the Stock Exchange on 11 March 2008. In the opinion of the Directors, the Group will have sufficient working capital for its current financial requirements and future development after restructuring. Accordingly, the Directors are satisfied that it is appropriate to prepare the Consolidated Financial Statements on a going concern basis, notwithstanding the Group's financial position and liquidity position as at 31 March 2007.

If the going concern basis were not to be appropriate, adjustments would have to be made to restate the values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and liabilities as current assets and liabilities.

(c) ***Books and records***

The Consolidated Financial Statements have been prepared based on available books and records of the Company and its subsidiaries. Although the present Directors, appointed after 1 April 2005 and did not take part in the daily management of the Company and its subsidiaries, had used their best endeavors to locate all the financial and business records of the Group, the Directors could not establish as to the correctness of the opening balances of Consolidated Financial Statements and as to whether all transactions entered into in the name of the Company and its subsidiaries during the year ended 31 March 2007 had been appropriately included in the Consolidated Financial Statements because most of the Company's former directors, the Group's former senior management and accounting personnel responsible for the operation in 2004 to 2007 had left the Group. Therefore the Directors do not have sufficient information to enable them:

(i) to determine as to whether all material related party transactions entered into by the Group have been included in the Consolidated Financial Statements in accordance with the disclosures requirements of the Hong Kong Companies Ordinance and Hong Kong Accounting Standard ("HKAS") 24 "Related Party Disclosures";

(ii) to prepare:

(a) a cash flow statement in accordance with the requirements of HKAS 7 "Cash Flow Statements" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"); and

(b) financial information by segment in accordance with the requirements of HKAS 14 "Segment Reporting" issued by the HKICPA;

(iii) to present and disclose information relating to the discontinued operations and disposals of non-current assets (or disposal groups). This is not in accordance with the requirements of HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" issued by the HKICPA; and

(iv) to represent as to the completeness of identification and appropriateness of disclosures of the following:

- post balance sheet events;
- commitments;
- contingent liabilities;
- information about the extent and nature of the financial instruments;
- details of the Group's policy in respect of the financial risk management;
- information of deferred taxation and taxation charge reconciliation;
- details of directors' and employees' emoluments;
- other disclosures under Hong Kong Companies Ordinance.

(d) Application of new and revised HKFRSs

In the year ended 31 March 2005, the Group has early adopted, for the first time, the following new HKFRSs, HKASs and their amendments and interpretations ("Ints") (collectively the "New HKFRSs") issued by the HKICPA which are relevant to the Group's operations. The New HKFRSs are either effective for accounting periods beginning on or after 1 December 2005, 1 January 2006 or 1 March 2006.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 27 (Amendment)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKAS – Int 4	Lease – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

(e) Impact of issued but not yet effective HKFRSs

The Group has not applied in the Consolidated Financial Statements the following new and revised HKFRSs that have been issued but are not yet effective:

		Effective for annual periods beginning on or after
HKFRS 7	Financial Instruments: Disclosures	1 January 2007
HKFRS 8	Operating Segments	1 January 2009
HKAS 1 (Revised)	Presentation of Financial Statements	1 January 2009
HKFRS 3 (Revised)	Business Combinations	1 July 2009
HKAS 23 (Revised)	Borrowing Costs	1 January 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements	1 July 2009
HKAS 1 (Amendment)	Capital Disclosures	1 January 2007
HKFRS 2 (Amendment)	Share-based Payment: Vesting Conditions and Cancellations	1 January 2009
HK(IFRIC) – Int 8	Scope of HKFRS 2	1 May 2006
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives	1 June 2006
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment	1 November 2006
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions	1 March 2007
HK(IFRIC) – Int 12	Service Concession Arrangements	1 January 2008
HK(IFRIC) – Int 13	Customer Loyalty Programmes	1 July 2008
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2008

3. Turnover

Turnover represents the aggregate of net amounts received and receivable from third parties during the year. An analysis of the Group's turnover is as follows:

	2007	2006
	HK$'000	*HK$'000*
Income from investment in marketable securities	**–**	1,691
Interest income from provision of finance	**58**	368
Movies, television and dramas and documentary production, distributing and licensing income	**1,989**	16,619
Property income	**–**	193
Theme restaurant income	**36,750**	40,746
	38,797	59,617

4. Other income and gains, net

An analysis of the Group's other income and gains, net is as follows:

	2007	2006
	HK$'000	*HK$'000*
Other income		
Bank interest income	**2**	4
Interest income, other than from loan receivables	**734**	643
	736	647
Sundry income	**250**	515
	986	1,162
Gains, net		
Gains on dilution and disposal of interest in subsidiaries	**–**	89
Gains on disposal of interest in a jointly controlled entity	**–**	90
	–	179
	986	1,341

5. Loss from operations

	2007	2006
	HK$'000	*HK$'000*
Loss from operations is arrived at after charging:		
Staff costs:		
Wages and salaries	**19,571**	27,403
Retirement benefits scheme contributions	**124**	30
	19,695	27,433
Auditors' remuneration	**1,400**	1,000
Amortisation of intangible assets	**7**	14
Depreciation:		
Owned assets	**4,793**	8,550
Asset held under a finance lease	**6**	36
Loss on disposal of property, plant and equipment	**78**	287
Loss on disposal of investment properties	**–**	118
Allowance for bad debts	**3,527**	2,063
and crediting:		
Property rental income, net of direct outgoings (2006: HK$173,000)	**–**	20

6. Finance costs

	2007	2006
	HK$'000	*HK$'000*
Interest on:		
Borrowings wholly repayable within five years:		
bank loans and overdrafts	**2,834**	1,625
other loans	**977**	1,190
Finance leases	**5**	10
	3,816	2,825

7. Taxation

	2007	2006
	HK$'000	*HK$'000*
Taxation outside Hong Kong – current year income tax	**15**	24

No provision for Hong Kong profits tax has been made in the Consolidated Financial Statements as the companies within the Group have either no assessable profits for both years 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 year at the rates of taxation prevailing in the countries in which the Group operates.

8. 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 year.

	2007	2006
	HK$	*HK$*
Loss for the year	**24,980,000**	49,045,000
Weighted average number of ordinary shares in issue during the year	**314,068,757**	314,068,757

Since the outstanding share options are anti-dilutive to the loss per share, no diluted loss per share is presented for both years.

9. Trade and other receivables

	2007	2006
	HK$'000	*HK$'000*
Trade receivables, net	**14,840**	13,849
Amount due from a related company	**236**	–
Loans and interest receivables – due within one year	**–**	303
Other receivables and prepayments	**3,571**	3,206
Deposits paid on acquisition of interest in an associate	**15,555**	15,555
Advance to a jointly controlled operation	**–**	–
Consideration receivable on disposal of available-for-sale financial asset	**2,995**	8,000
	37,197	40,913

The Directors consider that the carrying amounts of trade and other receivables approximate to their fair values.

The Group allows an average credit period of 30 days to 60 days to its trade customers. The ageing analysis of the Group's trade receivables (net of impairment loss) at the balance sheet date is as follows:

	2007	2006
	HK$'000	*HK$'000*
Up to 30 days	**1,769**	2,206
31 to 60 days	**4**	2
Over 60 days	**13,067**	11,641
	14,840	13,849

10. Trade and other payables

	2007	2006
	HK$'000	*HK$'000*
Trade payables	**7,497**	8,595
Other creditors, accrued charges and deposits	**53,642**	44,572
Amount due to an investee company	**–**	480
Amounts due to related parties	**519**	2,136
	61,658	55,783

The Directors consider that the carrying amounts of trade and other payables approximate to their fair values.

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

	2007	2006
	HK$'000	*HK$'000*
Up to 30 days	**845**	1,202
31 to 60 days	**277**	542
Over 60 days	**6,375**	6,851
	7,497	8,595

BUSINESS REVIEW

The Company is an investment holding company. The Group is principally engaged in (i) theme restaurant operation; and (ii) entertainment business in relation to the production, distribution and licensing of content for movies, television programs and documentaries. For the year ended 31 March 2007, approximately 99.85% (2006: approximately 96.22%) of the Group's turnover were derived from these two main business segments.

FINANCIAL REVIEW

Review of Results

The Group's turnover for the year ended 31 March 2007 was approximately HK$38,797,000, a decrease of approximately HK$20,820,000 or 34.92% compared with approximately HK$59,617,000 for the previous year.

Loss attributable to the Company's shareholders for the year ended 31 March 2007 was approximately HK$24,980,000, a decrease of approximately HK$24,065,000 or 49.07% compared with approximately HK$49,045,000 for the previous year. The substantial decrease in loss for the year was due to decreases in cost of sales and administrative expenses.

Financial Resources and Liquidity

As at 31 March 2007, the Group did not maintain sufficient liquid funds and had net current liabilities of approximately HK$54,440,000 (2006: approximately HK$15,286,000). The net current liabilities as at 31 March 2007 comprises of cash and bank balances of approximately HK$835,000 (2006: approximately HK$688,000).

As at 31 March 2007, the Group's total loans and borrowings were amounted approximately to HK$31,284,000 (2006: approximately HK$48,773,000), of which, approximately HK$17,203,000 (2006: approximately HK$42,217,000) was bank loans and borrowings and approximately HK$14,081,000 (2006: approximately HK$6,556,000) was other loans and borrowings.

Pledge of Assets

As at 31 March 2006, the Group's bank deposits of approximately HK$24,799,000 were pledged to banks to secure credit facilities granted to the Group.

On 15 November 2004, the Group entered into a share mortgage agreement (the "Share Mortgage Agreement") with ITC Management Limited (the "ITC"). Pursuant to the Share Mortgage Agreement, the Group has agreed to pledge their 100% interest in Fung Ming Venture Limited, 50% interest in Canaria Holdings Limited, 40% interest in Applause Holdings Limited and 100% interest in Cheerfame Limited held by the Company's subsidiaries in favour of ITC as security to secure a loan of HK$15,000,000 granted by ITC to the Group. All of the shares pledged under the Share Mortgage Agreement were discharged on 23 October 2006.

On 27 December 2006, the Group entered into a new share mortgage agreement (the "New Share Mortgage Agreement") and a loan assignment agreement (the "Loan Assignment Agreement") with Sunday Inn Limited (the "Lender"). Pursuant to the New Share Mortgage Agreement, the Group has agreed to pledge in favour of the Lender the Group's 50% interest (held by a subsidiary of the Company) in Canaria Holdings Limited (which in turn owns 100% interest in Earn Elite Development Limited). Pursuant to the Loan Assignment Agreement, the Group has 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 and HK$9,500,000 due by Canaria Holdings Limited and its subsidiary, Earn Elite Development Limited, respectively. Both of the New Share Mortgage Agreement and Loan Assignment Agreement have been entered into as the security to secure a loan of HK$11,000,000 granted by the Lender to the Group and the Company.

Contingent Liabilities

On 9 April 2008, Planet Hollywood International, Inc. (the "PHI") obtained a declaratory judgement (the "Declaratory Judgement") against the Company in the Circuit Court of the Ninth Judicial Circuit In and For Orange County, Florida (the "US Court") for damages based on a breach of the settlement agreement, namely, the term sheet dated 7 February 2005 (the "Term Sheet") entered into between, amongst others, PHI and the Company. Pursuant to the Declaratory Judgement, the US Court has ordered the Company to pay to PHI damages, including but not limited to actual damages, lost profits, loss business opportunities, interest, attorneys' fees and costs in the total sum of US$6,173,497.61 ("the Claim").

According to a legal opinion obtained by the Company that given the nature of the Claim upon which a notice of claim is filed and the necessary legal requirements for PHI to apply for a leave to issue proceedings against a company being wound up, the likelihood of PHI eventually making a successful recovery of the Claim against the Company is slim.

Other Commitments

The Group has no significant capital and other commitments at both year end dates.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2007, the Group had 12 employees (2006: 20). Employee remuneration, excluding directors' remuneration, for the year ended 31 March 2007 is approximately HK$19,695,000 (2006: approximately HK$27,433,000). The pay scale of the Group's employees is maintained at a competitive level and the employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system, which is reviewed annually.

DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 March 2007 (2006: Nil).

AN EXTRACT OF THE INDEPENDENT JOINT AUDITORS' REPORT

The Consolidated Financial Statements have been audited by the Company's independent joint auditors, Messrs. Ting Ho Kwan & Chan and Messrs. Cheung & Siu who have qualified their report which are extracted as follows:

Basis for disclaimer of opinion and qualified opinion arising from disagreement about accounting treatments

(i) The corresponding figures in the current year's financial statements were derived from the financial statements for the year ended 31 March 2006 which was audited by us and our report dated 4 July 2008 was disclaimed in view of (i) the disagreement about accounting treatments; (ii) limitations of audit scope and (iii) the fundamental uncertainty relating to the going concern basis of the consolidated financial statements. We are unable to obtain sufficient reliable evidence to satisfy ourselves as to whether the net assets of the Group as at 31 March 2006 and the results and the related disclosures in the notes to the consolidated financial statements of the Group for the year ended 31 March 2006 were fairly stated. Any adjustment found to be necessary to the opening balances as at 1 April 2006 may affect the net assets of the Group as at 31 March 2007, and the results and the related disclosures in the notes to the financial statements of the Group for the year ended 31 March 2007.

(ii) As explained in note 2(b) to the financial statements:

- the financial statements do not contain a statement of cash flows for the year ended 31 March 2007. This is not in accordance with the requirements of Hong Kong Accounting Standard 7 ("HKAS 7") "Cash Flow Statements" issued by the HKICPA.

- the financial statements do not contain the financial information by segments for the year ended 31 March 2007. This is not in accordance with the requirements of Hong Kong Accounting Standard 14 ("HKAS 14") "Segment Reporting" issued by the HKICPA.

- the financial statements do not present and disclose information relating to the discontinued operations and disposals of non-current assets (or disposal groups). This is not in accordance with the requirements of Hong Kong Financial Reporting Standard 5 "Non-current Assets Held for Sale and Discontinued Operations" issued by the HKICPA.

- the following disclosures have not been made in the financial statements:

  i Information about the extent and nature of the financial instruments as required by HKAS 32: "Financial Instruments: Disclosure and Presentation";

  ii Details of the Group's policy in respect of the financial risk management as required by HKAS 32: "Financial Instruments: Disclosure and Presentation";

  iii Information of deferred taxation and taxation charge reconciliation as required by HKAS 12: "Income Taxes";

  iv Details of directors' and employees' emoluments as required by The Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Companies Ordinance; and

  v Details for the unrecognised share of losses of associates as required by HKAS 28: "Investments in Associates".

(iii) As explained in note 16(a)(2) to the financial statements, and included in the Group's interests in associates is the Group's share of net assets of an associate, Applause Holdings Limited ("Applause"), of HK$4,809,000 as stated in the consolidated balance sheet as at 31 March 2007 and the Group's share of its net loss of HK$450,000 as shown in the consolidated income statement for the year then ended, which were derived from the unaudited management accounts of Applause. However, no management accounts have been provided to us by the Group. In the absence of all necessary information and documentary evidence from the associate, we have not been able to perform audit procedures that we considered necessary to satisfy ourselves as to the carrying amount of the Group's interest in Applause of approximately HK$4,809,000 as at 31 March 2007 and the Group's share of its net loss of HK$450,000 for the year then ended. Accordingly, we are unable to obtain sufficient reliable evidence to satisfy ourselves as to whether any impairment on the goodwill arising from the acquisition of Applause with carrying value of HK$2,010,000 is necessary and whether the goodwill is fairly stated in the consolidated financial statements as at 31 March 2007.

In addition, because of the above limitation, we are unable to satisfy ourselves as to the recoverability of the amount due from Applause of approximately HK$14,002,000 as at 31 March 2007. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves that the amounts referred to the above were free from material misstatement.

(iv) Included in the Group's interests in associates as at 31 March 2007 is the Group's share of net assets of 星美影院發展有限公司 and its subsidiaries (collectively the "Stellar Cinema Group") of HK$25,566,000. We have reviewed the financial statements of Stellar Cinema Group and found that there are possible effects of scope limitations in respect of the following:

(a) the recoverability of deposit paid by the Stellar Cinema Group of RMB55,000,000 (approximately equivalent to HK$55,781,000) for the acquisition of 60% equity interest in 中影星美電影院線有限公司 as detailed in note 16(b)(i) to the financial statements;

(b) the necessity of provision for the possible non-recovery of counterclaim amount of RMB9,799,000 (approximately equivalent to HK$9,938,000) for damages as a result of providing a performance guarantee as detailed in note 16(b)(ii) to the financial statements; and

(c) the recoverability of the long outstanding accounts receivable of approximately RMB12,570,000 (approximately equivalent to HK$12,748,000) as at 31 March 2007.

As explained in note 16(b)(i) to the financial statements, in the opinion of the Company's directors, no allowance for impairment of these deposit claims and receivables was considered necessary for the reasons stated therein. We are unable either to obtain sufficient reliable information or to carry out any alternative auditing procedures to satisfy ourselves as to the carrying value of the Group's share of net assets of the Stellar Cinema Group included in the consolidated balance sheet as at 31 March 2007.

(v) The operation of 上海東魅餐飲娛樂有限公司(「上海東魅」), a former subsidiary of the Group, was subcontracted to various third parties since 2004. According to the subcontracting agreements, the Group forfeited its rights to exercise significant influence over the financial and operating policy decisions of 上海東魅 in return for fixed guaranteed annual subcontracting fee of approximately RMB6,000,000. The Directors considered that the current year subcontracting fee income receivable of RMB6,000,000 is unlikely to be recovered based on the reason stated in note 19 to the financial statements and therefore has not been recognised in the consolidated income statement. However, we are unable to obtain sufficient information and explanations so as to assess the appropriateness of the accounting treatment adopted by the Group.

(vi) As disclosed in the note 20 to the financial statements are loans and interest receivables of approximately HK$422,630,000. We have not been able to obtain documentary evidence to substantiate the validity and existence in relation to these loans and interest receivables of approximately HK$422,630,000 as at 31 March 2007. Allowance for bad debts of approximately HK$422,630,000 as at 31 March 2007 was brought forward from 31 March 2006. It was not possible for us to obtain sufficient evidence and explanation in relation to the total amount of allowance for bad debts made against the amount of loans and interest receivables as at 31 March 2007. Therefore, we are unable to comment on whether the amount of allowance made is adequate.

(vii) Included in the consolidated balance sheet as at 31 March 2007 were balances with a debtor 星美傳媒集團有限公司(「星美傳媒」), in respect of the following:

i. a trade receivable of HK$12,966,000 due from 星美傳媒 in relation to film distribution income recorded in previous year of HK$11,233,000 and in current year of HK$1,733,000 respectively;

ii. an other receivable of HK$1,509,000 due from 星美傳媒; and

iii. a deposit of HK$15,555,000 paid to 星美傳媒 for the acquisition of 35% additional equity interest in an associate, 星美影院發展有限公司.

For the receivables mentioned (i) and (ii), although the balances are still outstanding as at year end date and up to the date of this report, the directors opined that no allowance for impairment is considered necessary. It was not possible for us to obtain sufficient evidence and explanation to ensure whether the amounts can be recovered in full.

The deposit of HK$15,555,000 mentioned in above was paid by the Group in 2005 to 星美傳媒 for the acquisition of 35% additional equity interest in an associate, 星美影院發展有限公司 based on an agreement for the above acquisition which was then declared as no effect on 31 December 2005. As explained in note 22(a) to the financial statements, negotiation for completing the acquisition was resumed in 2008 and no allowance for bad debt had been made. However, we were unable to obtain sufficient documentary evidence to satisfy ourselves as to the ability to complete the acquisition and the recoverability of the deposit in case the completion of this acquisition failed. Furthermore, we were unable to assess whether any impairment loss is required to be recognised in respect of this deposit.

(viii) As explained in note 22(b) to the financial statements and included in advance payment to a jointly controlled operation under note 22 “Trade and other receivables” of the consolidated balance sheet as at 31 March 2007 was a net advance payment (the “Advance”) of approximately HK$6,000,000 made by a subsidiary of the Group, Wide Treasure Limited (“Wide Treasure”), to a jointly controlled operation (the “Operation”) in which Wide Treasure is a joint venturer. We are informed by the directors that the Group has not been provided with the books and records of the operation so that they are unable to assess the performance of the joint venture. Full allowance had been made in previous years. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves to the validity of the above statement made by the directors. In view of the above, we are unable to comment on whether the amount of impairment loss made is adequate but not excessive, and the carrying values of this advance to the jointly controlled operation was fairly stated in the consolidated balance sheet.

(ix) As explained in note 22(c) to the financial statements and included in the consolidated balance sheet as at 31 March 2007 is consideration receivable on disposal of available-for-sale financial assets of approximately HK$2,995,000. The outstanding balance of this receivable up to the date of this report is HK$2,995,000 and the directors opined that no allowance for bad debt is considered necessary. It was not possible for us to obtain sufficient evidence and explanation to ensure whether the outstanding balance can be recovered in full amount and allowance for bad debt is necessary. There were no other satisfactory audit procedures that we could adopt to confirm that the abovementioned balances are fairly stated in the financial statements.

(x) Included in the consolidated balance sheet as at 31 March 2007 are trade and other payables of HK$27,901,000. We have not obtained evidence from these creditors in respect of their outstanding amounts due from the Group at 31 March 2007. There were no other satisfactory audit procedures that we could adopt to ensure that the abovementioned trade and other payables balances are fairly stated in the financial statements.

(xi) As explained in note 18 to the financial statements and included in the consolidated balance sheet as at 31 March 2007 is a deposit of approximately HK$42,882,000 paid for acquisition of an investment. Full allowance of impairment had been made in previous years. We are unable to obtain any documentary evidence or explanations for the appropriateness of this full amount of allowance made against the deposit as at the balance sheet date. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves that the amount referred to above was free from material misstatement. Furthermore, we have not been able to obtain documentary evidence to substantiate the validity and existence in relation to this deposit as at 31 March 2007.

(xii) As detailed in note 2(b) to the financial statements, there have been several changes to the Board of directors subsequent to 1 April 2005, the present directors do not represent as to the completeness of recording of transactions entered into by the Group and the Company for the year ended 31 March 2007 and of the completeness of the disclosure of claims, commitments, contingent liabilities and related party transactions and balances in the financial statements as at 31 March 2007. Therefore we have been unable to establish whether all transactions entered into in the name of the Company and its subsidiaries during the year have been appropriately included in the financial statements.

(xiii) In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the basis of their preparation by the directors. As more fully explained in note 2(a) to the financial statements, the Group's financial statements have been prepared on a going concern basis, the validity of which is dependent upon the successful outcome of the measures currently taken by the directors to ensure that adequate cash resources are available to the Group to enable it to meet its future working capital and financial requirements. The financial statements do not include any adjustments that would result from the failure of such measures.

There are no detailed projections or relevant information made available to us for inspection so as to determine the appropriateness of adopting the going concern basis of the presentation of these financial statements therefore we have disclaimed our opinion in this respect.

Any adjustment that might have been found to be necessary in respect of the matters set out in the above would have a consequential effect in the net amounts of the Group as at 31 March 2007 and the results for the year then ended and the related disclosures in the financial statements.

Disclaimer of opinion: disclaimer on view given by financial statements

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we do not express an opinion on the financial statements as to whether they give a true and fair view of the state of the Group's affairs as at 31 March 2007 and of the Group's loss for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitations on our work as set out in the basis for disclaimer of opinion paragraphs of this report:

(i) we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and

(ii) we were unable to determine whether proper books of account had been kept.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 34 to the financial statements, which describes the major uncertainty related to the outcome of the claim filed against the Company by Planet Hollywood International, Inc. The Company's management considers that this fundamental uncertainty has been adequately disclosed in the financial statements.

SUBSEQUENT EVENTS

Apart from those events as already disclosed elsewhere in this Announcement, the following additional events have occurred after 31 March 2007:

(a) The Company was struck off in the Register of Companies by the Registrar of Companies in Bermuda on 7 September 2007 due to non-payment of its annual government fees and late penalties. The Provisional Liquidators are in the course of restating the Company's status in Bermuda.

(b) On 28 September 2007, the Company has been 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.

(c) By a Power of Attorney dated 11 January 2008, the Lender has appointed an attorney to take steps to realise the securities provided to the Lender including the exercising of the power of sale.

(d) By Order of the Honourable Justice Barma of the High Court dated 20 February 2008, Mr. Liu Yiu Keung, Stephen and Ms. Chan Wai Hing, both of Ernst & Young Transactions Limited, have been appointed as the Provisional Liquidators of the Company.

(e) On 11 March 2008, a Memorandum of Understanding ("MOU") was signed between the Provisional Liquidators, the Company and Strategic Media International Limited (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.

(f) On 11 March 2008, a resumption proposal (the "Resumption Proposal") was submitted to the Stock Exchange requesting the resumption of trading in the Company's shares. The Resumption Proposal includes, amongst other things: (i) a proposed open offer to be underwritten by the Controlling Shareholder; (ii) a proposed acquisition of a cinema business in the People's Republic of China; and (iii) proposed full repayment of the liabilities of the Company subject to the completion of the proposed restructuring.

(g) On 28 March 2008, the Company, the Provisional Liquidators, the Controlling Shareholder and Mr. Qin Hui entered into a formal agreement in relation to the proposed restructuring of the Company.

PROSPECTS

Upon their appointment on 20 February 2008, the Provisional Liquidators, through their financial adviser, have been in discussion with various potential investors while liaising with the Controlling Shareholder with a view to restructure the Company and to apply for the resumption of trading in the Company's shares. On 11 March 2008, the Company submitted the Resumption Proposal to the Listing Division of the Stock Exchange, setting out the principal terms of the proposed restructuring and requesting the Stock Exchange's approval for the resumption of trading in the Company's shares.

The proposed restructuring, if successfully 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 to be underwritten by the Controlling Shareholder which will give rise to gross proceeds of approximately HK$94.2 million;

(c) an increase in the authorised share capital of the Company;

(d) all the creditors of the Company will be repaid in full; and

(e) the resumption of trading in the Company's shares upon completion of the proposed restructuring subject to the restoration of the public float as required by the Listing Rules.

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

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company and its subsidiaries have not redeemed any of the Company's listed securities during the year ended 31 March 2007. In addition, neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the year ended 31 March 2007.

AUDIT COMMITTEE

The annual results for the year ended 31 March 2007 have not been reviewed by an audit committee because the Directors have not appointed sufficient members to constitute an audit committee of the Company.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Save as disclosed below, none of the Directors is aware of any information that would reasonably indicate that the Company, for any part of the financial year ended 31 March 2007, was not in compliance with the code provisions set out in the Code of Best Practice contained in Appendix 14 of the Listing Rules.

Particulars of non-compliance during the year ended 31 March 2007:

(a) the independent non-executive directors were not appointed for specific terms as they had been subject to retirement by rotation at the Company's annual general meeting in accordance with the provisions of the Company's bye-laws;

(b) the Directors had not establish a remuneration committee;

(c) the Directors had not present a balanced, clear and comprehensive assessment of the Company's performance, position and prospects to the Company's shareholders;

(d) the Directors had not established an audit committee as the Directors have not appointed sufficient members to constitute an audit committee of the Company; and

(e) the Directors had not maintained an on-going dialogue with the Company's shareholders as the annual general meetings for the year of 2007 had not been held.

ANNUAL GENERAL MEETING

The Company will apply from the Registrar of Companies in Bermuda for a sanction to reconvene the annual general meeting. Notice of the annual general meeting will be published and dispatched to the shareholders of the Company in due course.

PUBLICATION OF FURTHER INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

This Announcement is available for viewing on the Stock Exchange's website and the Company's website at http://www.equitynet.com.hk/smi.

SUSPENSION OF TRADING

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

By Order of the Board
SMI Corporation Limited
(Provisional Liquidators Appointed)
LIU Xianbo
Executive Director

Hong Kong, 4 July 2008

As at the date of this announcement, the board of directors of the Company comprises 7 directors, of which 4 are executive directors, namely Messrs. Li Kai, Hao Bin, Liu Xianbo and Ms. Horfuangfung Wei Ho; and 3 are independent non-executive directors, namely Messrs. Lam Tak Shing, Pang Hong and Qiao Zhen Pu.