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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

The Board of Directors (the "Directors" or "Board") of SMI Corporation Limited (the "Company") presents the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2011, together with corresponding figures for the year ended 31 December 2010, as follows:

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	**2011** **HK$'000**	2010 HK$'000
Turnover	3	**883,543**	771,318
Revenue	3	**736,317**	356,637
Cost of sales		**(321,881)**	(123,260)
Gross profit		**414,436**	233,377
Other (loss)/income		**(11,276)**	15,603
Gain on disposal of held-for-trading investments		**3,556**	16,754
Selling and marketing expenses		**(194,171)**	(72,260)
Administrative expenses		**(65,864)**	(66,804)
Other operating expenses		**(1,560)**	(8,468)
Profit from operations		**145,121**	118,202

* *For identification purpose only*

	Note	2011	2010
		HK$'000	*HK$'000*
Finance costs		**(14,620)**	(15,401)
Loss on acquisition of subsidiaries, net		**(7,277)**	–
Share of profits of associates		**9,522**	1,477
Share of profits of a jointly controlled entity		**13,376**	34,682
Impairment loss on goodwill		**(5,912)**	–
Gain on disposal of an associate		**–**	4,000
Gain on disposal of jointly controlled entities		**–**	1,651
Gain on disposal of subsidiaries		**–**	14,877
Equity-settled share-based expenses		**–**	(29,342)
Profit before tax		**140,210**	130,146
Income tax expense	*5*	**(39,902)**	(7,397)
Profit for the year	*6*	**100,308**	122,749
Attributable to:			
Owners of the Company		**101,626**	123,365
Non-controlling interests		**(1,318)**	(616)
		100,308	122,749
Earnings per share	*7*		
– Basic		**HK1.34 cents**	HK2.86 cents
– Diluted		**HK1.34 cents**	HK2.66 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

	2011	2010
	HK$'000	*HK$'000*
Profit for the year	**100,308**	122,749
Other comprehensive income:		
Exchange differences on translating foreign operations	**18,780**	3,309
Other comprehensive income for the year, net of tax	**18,780**	3,309
Total comprehensive income for the year	**119,088**	126,058
Attributable to:		
Owners of the Company	**109,909**	126,446
Non-controlling interests	**9,179**	(388)
	119,088	126,058

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2011

	Note	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment		**719,366**	153,775
Goodwill		**1,421,706**	1,434,349
Intangible assets		**213,678**	224,182
Investments in associates		**16,533**	8,813
Investments in jointly controlled entities		**76,071**	44,867
Deposits paid for investments		**11,764**	83,462
Available-for-sale financial assets		**23,020**	23,020
Rental deposits		**18,475**	15,000
Prepayments for construction of cinemas		**160,040**	115,203
Deferred tax assets		**2,521**	2,312
		2,663,174	2,104,983
Current assets			
Inventories		**23,221**	1,592
Trade and other receivables	*8*	**229,301**	261,565
Held-for-trading investments		**45,106**	13,270
Convertible notes designated at financial assets at fair value through profit or loss		**21,700**	28,600
Due from associates		**–**	16,558
Due from a jointly controlled entity		**–**	850
Bank and cash balances		**45,295**	253,817
		364,623	576,252
Current liabilities			
Trade and other payables	*9*	**280,231**	158,176
Due to associates		**379**	9,149
Due to a jointly controlled entity		**–**	244
Due to related parties		**469**	966
Current tax liabilities		**36,368**	3,896
		317,447	172,431
Net current assets		**47,176**	403,821
Total assets less current liabilities		**2,710,350**	2,508,804

	Note	2011 HK$'000	2010 HK$'000
Non-current liabilities			
Convertible notes		**132,144**	440,670
Deferred income		**1,709**	1,640
Deferred tax liabilities		**6,781**	6,739
		140,634	449,049
NET ASSETS		**2,569,716**	2,059,755
Capital and reserves			
Share capital	*10*	**810,161**	647,449
Reserves		**1,687,898**	1,364,634
Equity attributable to owners of the Company		**2,498,059**	2,012,083
Non-controlling interests		**71,657**	47,672
TOTAL EQUITY		**2,569,716**	2,059,755

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

1. GENERAL INFORMATION

SMI Corporation Limited was incorporated in Bermuda as an exempted company with limited liability under the Companies Act of Bermuda. The address of its registered office is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of its principal place of business is at Suite 6701-2&13, The Center, 99 Queen's Road Central, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its subsidiaries are engaged in entertainment business relating of the operation of theaters, investments in film production and distribution and trading of securities.

In the opinion of the Directors of the Company, as at 31 December 2011, Mr. QIN Hui is the controlling party of the Company.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised International Financial Reporting Standards ("IFRSs") that are relevant to its operations and effective for its accounting year beginning on 1 January 2011. IFRSs comprise International Financial Reporting Standards; International Accounting Standards; and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years.

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

3. TURNOVER AND REVENUE

The Group's turnover which represents the amounts received and receivable from theater operation, dividend income and trading of equity securities during the year are as follows:

	2011	2010
	HK$'000	*HK$'000*
Theater operation	**569,170**	353,754
Dividend income from held-for-trading investments	**594**	511
Investments in film production and distribution	**159,138**	1,287
Others	**7,415**	1,085
Proceeds from held-for-trading investments	**147,226**	414,681
	883,543	771,318

An analysis of the Group's revenue for the year is as follows:

	2011	2010
	HK$'000	*HK$'000*
Theater operation	**569,170**	353,754
Dividend income from held-for-trading investments	**594**	511
Investments in film productions and distribution	**159,138**	1,287
Others	**7,415**	1,085
	736,317	356,637

4. SEGMENT INFORMATION

The Group has three reportable segments as follows:

(a)	Theater operation	–	box office income, advertising income, facilities rental income, membership service income and sales of food and beverage
(b)	Securities trading	–	trading of marketable securities
(c)	Investments in film production and distribution	–	investments in production and distribution of films

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

The Group's other operating segments include the operating and management business which earns operating and management income, advertising and public relation services which earn service income for advertising and trading business which earn profit from goods sold. None of these segments meets any of the quantitative thresholds for determining reportable segments. The information of these other operating segments is included in the "others" column.

Segment profit represents the profit earned by each segment without allocation of central administrative expenses, gain on disposal of subsidiaries, change in fair value of convertible notes designated at financial assets at FVTPL, interest income from convertible notes designated at financial assets at FVTPL, gain on disposal of an associate, gain on disposal of jointly controlled entities, financial costs incurred by convertible notes and equity-settled share-based expenses. Segment assets do not include convertible notes designated at financial assets at FVTPL, assets of headquarters and other receivables of the headquarters. Segment liabilities do not include amounts due to related parties, other payables of headquarters and convertible notes. Segment non-current assets do not include non-current assets of headquarters. This is the measure reported to the Chief Operation Decision Maker, the Directors of the Company, for the purposes of resource allocation and performance assessment.

4. SEGMENT INFORMATION (Continued)

Information about reportable segment profit or loss, assets and liabilities:

	Theater operation HK$'000	Securities trading HK$'000	Investments in film production and distribution HK$'000	Others HK$'000	Total HK$'000
Year ended 31 December 2011					
Revenue from external customers	569,170	594	159,138	7,415	736,317
Segment profit/(loss)	121,645	(13,230)	42,737	(1,660)	149,492
Interest revenue	112	–	5	–	117
Interest expense	(9)	(2,337)	–	–	(2,346)
Depreciation and amortisation	(33,045)	–	(116,744)	(64)	(149,853)
Other material items of income and expense:					
Loss on acquisition of subsidiaries, net	(7,277)	–	–	–	(7,277)
Share of profits of jointly controlled entities	10,542	–	–	2,834	13,376
Share of profits of associates	9,522	–	–	–	9,522
Income tax (expense)/credit	(39,971)	69	–	–	(39,902)
Other material non-cash items:					
Impairment loss on goodwill	–	–	–	(5,912)	(5,912)
Impairment loss on other receivables	(215)	–	–	–	(215)
Additions to segment non-current assets	629,827	–	127,620	3,332	760,779
As at 31 December 2011					
Segment assets	2,638,970	45,292	190,847	119,757	2,994,866
Segment liabilities	(277,106)	(42,601)	(1,598)	(2,227)	(323,532)
Investments in associates	16,533	–	–	–	16,533
Investments in jointly controlled entities	–	–	–	76,071	76,071

4. SEGMENT INFORMATION (Continued)

	Theater operation *HK$'000*	Securities trading *HK$'000*	Investments in film production and distribution *HK$'000*	Others *HK$'000*	Total *HK$'000*
Year ended 31 December 2010					
Revenue from external customers	353,754	511	1,287	1,085	356,637
Segment profit/(loss)	172,375	12,874	(1,682)	(3,218)	180,349
Interest revenue	132	1	5	–	138
Interest expense	(202)	(2,144)	–	–	(2,346)
Depreciation and amortisation	(13,049)	–	–	(189)	(13,238)
Other material items of income and expense:					
Share of profits of a jointly controlled entity	34,682	–	–	–	34,682
Share of profits of associates	1,477	–	–	–	1,477
Income tax expense	(7,388)	–	–	–	(7,388)
Other material non-cash items:					
Impairment loss on other receivables	(204)	–	–	–	(204)
Additions to segment non-current assets	1,725,335	–	162,940	94,022	1,982,297
As at 31 December 2010					
Segment assets	2,176,312	13,497	230,745	6,099	2,426,653
Segment liabilities	(176,009)	(127)	(345)	–	(176,481)
Investments in associates	8,813	–	–	–	8,813
Investments in jointly controlled entities	44,867	–	–	–	44,867

Revenue reported above represents revenue generated from external customers. There are no inter-segment sales for the year ended 31 December 2011 (31 December 2010: Nil).

4. SEGMENT INFORMATION (Continued)

Reconciliations of reportable segment revenue, profit or loss, assets and liabilities:

	2011	2010
	HK$'000	*HK$'000*
Revenue		
Total revenue of reportable segments	**736,317**	356,637
Profit or loss		
Total profit or loss of reportable segments	**149,492**	180,349
Other income	**997**	2,210
Unallocated amounts:		
Fair value (loss)/gain on convertible notes designated at financial assets at FVTPL	**(6,900)**	9,342
Gain on disposal of subsidiaries	**–**	14,877
Gain on disposal of an associate	**–**	4,000
Gain on disposal of jointly controlled entities	**–**	1,651
Impairment loss on deposits paid for investment	**(1,207)**	–
Equity-settled share-based payments	**–**	(29,342)
Unallocated finance costs	**(12,274)**	(13,055)
Corporate expenses	**(29,800)**	(47,283)
Consolidated profit for the year	**100,308**	122,749

	2011	2010
	HK$'000	*HK$'000*
Assets		
Total assets of reportable segments	**2,994,866**	2,426,653
Convertible notes designated at financial assets at FVTPL	**21,700**	28,600
Unallocated headquarter amounts:		
Property, plant and equipment	**2,377**	4,038
Prepayments and other receivables	**7,178**	9,796
Bank and cash balance	**1,676**	212,148
Consolidated total assets	**3,027,797**	2,681,235

4. SEGMENT INFORMATION (Continued)

	2011	2010
	HK$'000	*HK$'000*
Liabilities		
Total liabilities of reportable segments	**323,532**	176,481
Amounts due to related companies	**469**	966
Convertible notes	**132,144**	440,670
Unallocated headquarters amounts:		
Others liabilities	**1,936**	3,363
Consolidated total liabilities	**458,081**	621,480

Geographical information:

The Group principally operates in the PRC (country of domicile) with revenue and profit derived mainly from its operations in the PRC.

The Group's revenue from continuing operations from external customers and information about its non-current assets by geographical location of assets are detailed below:

	Revenue		**Non-current assets**	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**6,199**	1,446	**2,377**	10,259
PRC except Hong Kong	**730,118**	355,191	**2,635,256**	2,069,392
Consolidated total	**736,317**	356,637	**2,637,633**	2,079,651

In presenting the geographical information, revenue is based on the locations of the customers.

Revenue from major customers:

There are no major customers contributing over 10% of the Group's revenue for the year ended 31 December 2011 and 31 December 2010.

5. INCOME TAX EXPENSE

	2011	2010
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax		
Under/(over)-provision in prior years	(69)	9
Current tax – Overseas		
Provision for the year	38,972	6,514
Under/(over)-provision in prior years	1,736	(1,177)
	40,708	5,337
Deferred tax	(737)	2,051
	39,902	7,397

Hong Kong Profits Tax has been provided at a rate of 16.5% (2010: 16.5%) on the estimated assessable profit for the year ended 31 December 2011.

For the PRC subsidiaries of the Group, the provision for PRC enterprise income tax is based on a statutory rate of 25% (2010: 25%) of the estimated assessable profits of the Group entities as determined in accordance with the relevant income tax rules and regulations of the PRC.

In last year, pursuant to Guoshuihan [2011] No. 86 issued by the State Administration of Taxation of the PRC, two of the Group's PRC subsidiaries, namely 北京回龍觀星美國際影城管理有限公司 (Beijing Huilongguan Stellar Cineplex Management Co., Ltd.) ("Beijing Huilongguan Stellar") and 天津星美影城管理有限公司 (Tianjin Stellar Cineplex Management Co., Ltd) ("Tianjin Stellar"), are qualified as the "新辦文化企業" and therefore they can exempt from the enterprise income tax for the period from 1 January 2010 to 31 December 2010.

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

5. INCOME TAX EXPENSE (Continued)

The reconciliation between the income tax expense and the product of profit before tax multiplied by the Hong Kong Profits Tax rate is as follows:

	2011	2010
	HK$'000	*HK$'000*
Profit before taxation (excluding share of profits of associates and share of profits of a jointly controlled entity)	**117,312**	93,987
Tax at the applicable income tax rate of 16.5% (2010: 16.5%)	**19,356**	15,508
Tax effect of expenses not deductible for tax purposes	**7,145**	161,075
Tax effect of income not taxable for tax purposes	**(9,754)**	(157,266)
Tax effect of unrecognised tax losses	**9,205**	–
Tax effect on utilisation of tax losses not previously recognised	**(256)**	(1,276)
Tax effect of tax holidays/tax concession	**20**	(15,741)
Under-provision in prior years	**1,934**	9
Over-provision in prior years	**(267)**	(1,177)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**12,414**	2,601
Tax effect of temporary differences not recognised	**119**	1,945
Tax effect of current year tax loss not recognised	**(14)**	1,687
Others	**–**	32
Income tax expense	**39,902**	7,397

6. PROFIT FOR THE YEAR

The Group's profit for the year is stated after charging/(crediting) the following:

	2011	2010
	HK$'000	*HK$'000*
Acquisition-related costs	**–**	8,152
Amortisation of lease contracts		
(included in administrative expenses)	**3,603**	1,292
Amortisation of investment in film production	**116,744**	–
Auditor's remuneration		
– Current	**2,404**	1,557
– Under-provision in prior year	**246**	1,103
	2,650	2,660
Cost of service provided	**178,481**	115,251
Cost of inventories sold	**26,656**	8,009
Impairment loss on other receivables	**215**	204
Directors' emoluments	**1,903**	6,946
Depreciation on property, plant and equipment	**31,195**	13,199
Net exchange gain	**(13,634)**	(1,641)
Operating lease charges of land and buildings		
– Minimum lease payments	**40,826**	14,548
– Contingent rent	**19,711**	18,846
	60,537	33,394
Staff costs excluding directors' emoluments		
– salaries, bonus and allowances	**61,039**	28,304
– equity-settled share-based payments	**–**	3,455
– retirement benefits scheme contributions	**12,457**	4,541
	73,496	36,300
Equity-settled share-based payments paid to consultants	**–**	22,070

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following:

	2011	2010
	HK$'000	*HK$'000*
Earnings		
Earnings for the year attributable to owners of the Company	**101,626**	123,365
Finance costs saving on conversion of convertible notes outstanding	**12,274**	12,883
Earnings for the purpose of calculating diluted earnings per share	**113,900**	136,248
Number of shares		
Issued ordinary shares at beginning of year	**6,474,488,044**	2,518,775,028
Effect of placing of new shares	**–**	455,571,419
Effect of consideration shares issued	**–**	1,123,380,543
Effect of conversion of convertible notes	**1,100,603,668**	221,964,244
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**7,575,091,712**	4,319,691,234
Effect of dilutive potential ordinary shares arising from convertible notes outstanding	**705,693,058**	810,958,903
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**8,280,784,770**	5,130,650,137

The effects of all potential ordinary shares are anti-dilutive for the year ended 31 December 2011.

8. TRADE AND OTHER RECEIVABLES

	2011	2010
	HK$'000	*HK$'000*
Trade receivables	**43,991**	49,125
Rental and other deposits	**63,461**	4,241
Amount due from non-controlling interests of subsidiaries *(note a)*	**21,487**	45,932
Prepayments and other receivables *(note b)*	**100,362**	162,267
	229,301	261,565

Notes:

(a) The amount of HK$21,487,000 (2010: HK$45,932,000) as at 31 December 2011 is unsecured, interest-free and repayable on demand.

(b) As at 31 December 2011, included in prepayments and other receivables are advances to independent third parties of approximately HK$6,004,000 (2010: HK$58,596,000) which are unsecured, interest-free and repayable within 1 year. The remaining other receivables are unsecured, interest-fee 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 the reporting period is as follow:

	2011	2010
	HK$'000	*HK$'000*
0 to 30 days	**28,727**	25,841
31 to 90 days	**10,381**	5,086
Over 91 days	**4,883**	18,198
	43,991	49,125

As at 31 December 2011, trade receivables of HK$4,883,000 (2010: HK$18,198,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2011	2010
	HK$'000	*HK$'000*
3 to 6 months	**4,883**	18,198

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2011	2010
	HK$'000	*HK$'000*
Hong Kong dollars	**1,600**	121
Renminbi ("RMB")	**42,391**	49,004
Total	**43,991**	49,125

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

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.

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

	2011	2010
	HK$'000	*HK$'000*
Balance at the beginning of the year	**253**	49
Impairment loss recognized	**215**	204
Acquisition of subsidiaries	**83**	–
Written off of receivables	**(25)**	–
Exchange differences	**9**	–
Balance at the end of the year	**535**	253

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

9. TRADE AND OTHER PAYABLES

	2011	2010
	HK$'000	*HK$'000*
Trade payables	**84,789**	35,975
Customers' deposits	**57,185**	32,312
PRC business and other tax payables	**6,537**	6,298
Margin payable due to financial institution *(note)*	**42,601**	–
Amount due to a non-controlling interest of subsidiaries	**–**	23,554
Accrued charges and other payable	**89,119**	60,037
	280,231	158,176

Note: The margin payable due to financial institutions are secured and repayable on demand. The interest are charged at 8% 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:

	2011	2010
	HK$'000	*HK$'000*
Up to 30 days	**28,415**	13,133
31 to 60 days	**12,441**	5,685
Over 60 days	**43,933**	17,157
	84,789	35,975

The carrying amounts of the Group's trade payables are denominated in the following currencies:

	2011	2010
	HK$'000	*HK$'000*
Hong Kong dollars	**720**	65
RMB	**84,069**	35,910
Total	**84,789**	35,975

10. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Authorised:		
Ordinary shares of HK$0.1 (2010: HK$0.1) each		
At 1 January 2010	5,000,000,000	500,000
Increase during the year	15,000,000,000	1,500,000
At 31 December 2010 , 1 January 2011 and at 31 December 2011	20,000,000,000	2,000,000
Issued and fully paid:		
Ordinary shares of HK$0.1 (2010: HK$0.1) each		
At 1 January 2010	2,518,775,028	251,878
Issue of shares by placing on 2 May 2010	503,752,000	50,375
Issue of shares for conversion of convertible notes on 6 May 2010	338,983,050	33,898
Issue of shares for acquisition of subsidiaries	2,440,677,966	244,068
Issue of shares by placing on 22 October 2010	672,300,000	67,230
At 31 December 2010 and at 1 January 2011	6,474,488,044	647,449
Issue of shares for conversion of convertible notes on 27 April 2011 *(note)*	1,500,000,000	150,000
Issue of shares for conversion of convertible notes on 24 May 2011 *(note)*	127,118,644	12,712
At 31 December 2011	8,101,606,688	810,161

Note: On 27 April 2011 and 24 May 2011, the holder of the acquisition convertible note exercised his conversion rights to convert the acquisition convertible note of HK$442,500,000 and HK$37,500,000 into the Company's ordinary shares of 1,500,000,000 and 127,118,644 shares at a conversion price of HK$0.295 per ordinary share respectively.

10. SHARE CAPITAL (Continued)

All the shares which were issued during the year 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 year.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group regularly reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends and new share issues as well as the raising of new debts or the repayment of existing debts.

The only externally imposed capital requirement is that for the Group to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares. The Group receives a report from the share registrars weekly on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit throughout the year. As at 31 December 2011, 25.68% (2010: 32.13%) of the shares were in public hands.

BASIS FOR QUALIFIED OPINION

Our audit opinion on the consolidated financial statements of the Group for the year ended 31 December 2010 (the "2010 Financial Statements"), which form the basis for the corresponding figures presented in the current year's consolidated financial statements, was modified because of the possible effect of the limitations on scope of our audit including (i) Share of results of associates and gain on disposal of associates; (ii) Share of results of jointly controlled entities and gain on disposal of jointly controlled entities; and (iii) Gain on disposal of subsidiaries, details of which are set out in our auditor's report dated 28 March 2011. Any adjustments to the figures might have a consequential effect on the results for the year ended 31 December 2010. Our opinion on current year's consolidated financial statements is also modified because of the possible effects of this matter on the comparability of the current year's figures and the corresponding figures.

QUALIFIED OPINION

In our opinion, except for the possible effects on the corresponding figures as described in the basis for qualified opinion paragraph, the consolidated financial statements give a true and fair view of the state of the affairs of the Group as at 31 December 2011, and of the Group's results and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group was performing well in 2011. The Group further strengthened its core business during the year. The continuous growing movie market in China provided favorable market conditions for the Group's development; therefore the 2011 financial portfolio was mainly contributed by the movie theaters and investment in film production and distribution.

The Group reported a revenue of HK$736 million for the year ended 31 December 2011, with a year-on-year growth of 106% compared to 2010 (2010: HK$357 million). The increase of HK$379 million was mainly generated by the segments of theater operation and the investment in film production and distribution, especially for the segment of investment in film production and distribution having a very outstanding performance in 2011.

The operating results of the Group for 2011 maintained a stable growth. Profit from operations was HK$145 million, rose by 23% from 2010 (2010: HK$118 million). Overall, the Company's financial position was in very good shape due to low gearing in 2011.

Movie Theater Business

As of 31 December 2011, the Group was operating 37 movie theaters with 258 screens in China, an impressive growth compared to 2010, when the Group operated only 15 movie theaters with 105 screens. Both numbers increased more than a double. 22 new movie theaters were put in operation during 2011. These movie theaters were mainly located in the first tier cities (such as Beijing, Shanghai, Tianjin), while some were in major second tier cities (such as Changsha, Hefei and Kunming) in China.

Despite the absence of super 3D blockbusters like Avatar, these 37 movie theaters still generated HK$569 million of revenue to the Group for the year ended 31 December 2011, representing a robust year-over-year growth of 61% (2010: HK$354 million). The segment profit of movie theater operation dropped by 29% compared to the previous year, amounted for HK$122 million (2010: HK$172 million). Such decrease was mainly due to the increase in depreciation, amortization and initial expenses incurred for the new movie theaters opened throughout 2011, and also the increase in income tax in 2011.

The 22 new movie theaters were opened in stages throughout 2011; there would be time for construction and renovation. On top of that, the selling and marketing expenses were increasing significantly. Thus, this learning curve period accounted for a drop of profit in 2011. Moreover, certain cinemas had enjoyed the tax concessions which were expired at the end of year 2010. Hence, the profit from theater operation segment reduced in 2011, even though our revenue enjoyed a rise in 2011.

China's movie industry maintained a solid growth in 2011, and was reflected in the record high annual box office receipts of RMB13.1 billion, nearly a 30% increase compared to the same period of 2010. Moreover, due to increasing per capita income for Chinese citizens, there was an increasing demand in high quality entertainment, such as watching special feature 3D or IMAX movies. These special feature movies generally contributed to higher box office revenue, due to higher ticket price and greater appeal to the movie audience.

Thanks to the demand driven by the economic growth and the rapid expansion of the Chinese movie market, the Group had served over 8 million patrons during 2011. It was a over 20% rise compared to year 2010, and such increase rate was in line with the industry growth. However, the effect brought from higher ticket price generated by special features movies was offset by the discounts offered by new movie theaters. Therefore, the average ticket price per patron was decreased slightly in 2011.

Movie and TV Series Production Business

The profit generated from this segment was HK$43 million (2010: a loss of HK$ 1.7 million). The Group successfully turned loss into gain in this segment. The segment of investment in movie production and distribution generated HK$159 million of revenue, representing an impressive growth of more than a hundred times compared to 2010 (2010: HK$1.3 million).

During the year 2011, the Group invested in the production of many high profile movies namely "趙氏孤兒" (Sacrifice), "神奇俠侶" (Mr. & Mrs. Incredible), "最愛" (Love for Life) and "武俠" (Wu Xia), etc. These movies were shown in 2011 and had good box office receipts as well as reputation. The Group also invested in production of a few Chinese domestic TV series in 2011, including "女子軍魂" and "咱家這些事". The extensive coverage of these TV series in China enhanced the image of the Company and also contributed to the segment performance.

New Complementary Businesses

Though generating only a very little impact on the Group's revenue in 2011, with an objective to diversify the source of income, the Group actively explored in complementary businesses in 2011. These value-added businesses consisted of retailing (in-theater counter sales and online shopping) and expansion of the existing advertising and promotional business.

PROSPECTS

The Group is confident that the Chinese movie industry will continue to shine in 2012, and China will become another center of the worldwide movie market. Being one of the leaders in the market, the Group has devoted its best effort to expand its movie theater network. We strongly commit that the movie theater operation continues to be the Group's core business.

In coming years, the Group will pursue for adding 17-30 new movie theaters per annum, depending on the cash flow generation and the availability of external funding. The Group holds a positive view for the high economic growth in the second and the third tier cities in China in the coming years. Therefore, we will extend our existing movie theater network to these cities in the near future. On top of that, the Group will construct new 3D facilities in the existing and new movie theaters, to keep the competitive edges on one hand and the higher ticket price and revenue on the other.

Considering the impressive performance of Chinese movie productions in recent years, the Group will dedicate to the Chinese movie industry by participating in several movies in 2012. In order to bring more movie selections to the movie audience in China, the Group will be actively in negotiation to seek for opportunities for distributing of high quality movies.

Being backed up with the high admission of the Group's movie theaters, availability of extensive business network, and the high purchasing power of the patrons, the Group started its movie theater related retailing, advertising and promotional businesses in 2011. We are confident that these businesses will grow significantly in 2012. Together with our core movie theater operation, such integrated business model will become a powerful engine for the Group's revenue.

To cope with our new vision and expansion, the management team will maintain a good financial structure of the Group. Moreover, the Group will actively explore suitable strategic business partners, such as overseas institutional investors, to finance new movie theater projects.

FINANCIAL REVIEW

Turnover, revenues, and profit of the year

Total turnover and revenue during the year ended 31 December 2011 were HK$884 million and HK$736 million (2010: HK$771 million and HK$357 million) respectively.

The revenue increased more than a double of the year 2010. The drastic increase in revenue is mainly due to the explosive growth of the theater operation and investments in film production and distribution.

The profit for the year ended 31 December 2011 was HK$100 million (2010: HK$123 million).

As mentioned in Movie Theater Business, the profits in 2011 were partially set off by initial setup costs incurred by the new movie theaters. Furthermore, in year 2010, an aggregate one-off gain on disposal of subsidiaries, associate and jointly controlled entity approximate to HK$20.5 million was contributed to the Group. However, no such extraordinary gain was noted in year 2011.

Selling and marketing and administrative expenses

The increase in selling and marketing and administrative expenses were mainly due to increase in the number of movie theaters built up during the year ended 31 December 2011.

Financial Cost

Financial cost mainly represented effective interest of HK$12 million derivated from convertible notes.

Financial resources and Liquidity

As at 31 December 2011, the Group maintained sufficient liquid fund and had net current assets of HK$47 million.

The Group's net assets were HK$2,570 million, representing an increase of HK$510 million from HK$2,060 million as at 31 December 2010. The increase was mainly due to the conversion of convertible notes and profit earned during the year.

Debt and gearing

The gearing ratio (Total borrowings including convertible notes to equity attributable to owners of the Company) decreased from 22% to 5% as at 31 December 2011 (2010: 22%) as a result of conversion of convertible notes during the year.

The Group was financed primarily through its share capital and reserves. There was no bank borrowing as at 31 December 2011.

Foreign Exchange Risks

The Company reports its consolidated financial statements in Hong Kong dollars ("HKD"). All of the theatre operation and new complementary businesses revenue and operating costs were denominated in Renminbi ("RMB"). The expansion of the theatre operation and new complementary businesses will be principally in China. Company will therefore be exposed to exchange loss if HKD strengthens against RMB.

The Group currently does not have a foreign currency hedging policy. The Directors consider that it is unlikely HKD would strengthen against RMB in the near future. However, if RMB continues to strengthen against HKD, 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.

Capital Expenditure

During the year, the Group incurred capital expenditure of approximately HK$417 million and prepayments for construction contracts of HK$160 million which were financed by internal resources of the Group. The construction contacts were related to building of theaters throughout China.

Contingent Liabilities

There were no material contingent liabilities or off balance sheet obligations.

Employees

Excluding the staff of associates and jointly controlled entities, there is total 1,611 full-time staff as at 31 December 2011 (including directors 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 and performance.

DIVIDEND

At the Board meeting held on 30 March 2012, the Directors do not recommend the payment of any dividends in respect of the year ended 31 December 2011 (2010: Nil).

CODE ON CORPORATE GOVERNANCE PRACTICES (THE "CG CODE")

During the year ended 31 December 2011 (the "Reporting Period"), the Company was in compliance with the provisions of the CG Code, except for the deviations from Code Provisions A.2.1 which is explained below:

Chairman and Chief Executive Officer ("CEO")

Under the provision A.2.1 of the Code stipulates that the role of both the Chairman and CEO should be separate and should not be performed by the same individual. During the Reporting Period, Mr. QIN Hong ("Mr. QIN") continued to act as an Execute Director, Chairman and Chief Executive Officer. This constitutes a deviation from the code provision A.2.1.

The Board is of the opinion that it is suitable and in the best interests of the Company at the present stage for Mr. QIN to hold both positions as Chairman and CEO of the Company as this arrangement helps maintain the continuity of the Company's policies and the stability of the Company's operations, as well as to enhance the management of the Company.

The Board believes that the balance of power and authorities is ensured by the operation of the senior management and the Board.

Save as those mentioned above, in the opinion of the Directors, the Company complied with the Provisions of the CG Code during the Reporting Period.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities of the Stock Exchange ("Listing Rules") regarding securities transactions by Directors. Upon specific enquiries by the Company, all Directors confirmed that they have fully complied with the Model Code.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the Reporting Period, other than those disclosed in note 10 to the consolidated financial statements in this announcement, none of the Company or any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company.

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 terms of reference of the Audit Committee are disclosed in full on the Company's website. 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 the accounting principles and practices adopted by the Group and discussed auditing, internal control and financing reporting matters including the review of the audited financial statements for the year ended 31 December 2011, with external auditor. There were no disagreement from the auditor or Audit Committee in respect of the accounting policies adopted by the Company.

REVIEW OF THIS FINAL RESULTS ANNOUNCEMENT

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2011 have been agreed by the Group's auditor, RSM Nelson Wheeler ("RSM"), to the amounts set out in the Group's consolidated financial statements for the year. The work performed by RSM in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by RSM on the preliminary announcement.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.equitynet.com.hk/smi.

The 2011 annual report containing all the information required under the Listing Rules will be despatched to shareholders of the Company and available on the above websites in due course.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to our customers, shareholders, bankers, and in turn the management and staff for their unreserved support for the Group during the year.

By Order of the Board
SMI Corporation Limited
WONG Kui Shing, Danny
Executive Director

Hong Kong, 30 March 2012

As at the date of this announcement, the executive directors of the Company are Mr. QIN Hong, Mr. HU Yidong, Mr. WONG Kui Shing, Danny and Mr. CHENG Chi Chung. The independent non-executive directors are Mr. HE Peigang, Mr. PANG Hong and Mr. CHAN Sek Nin, Jackey.