Annual Report 2010

星 美 國 際

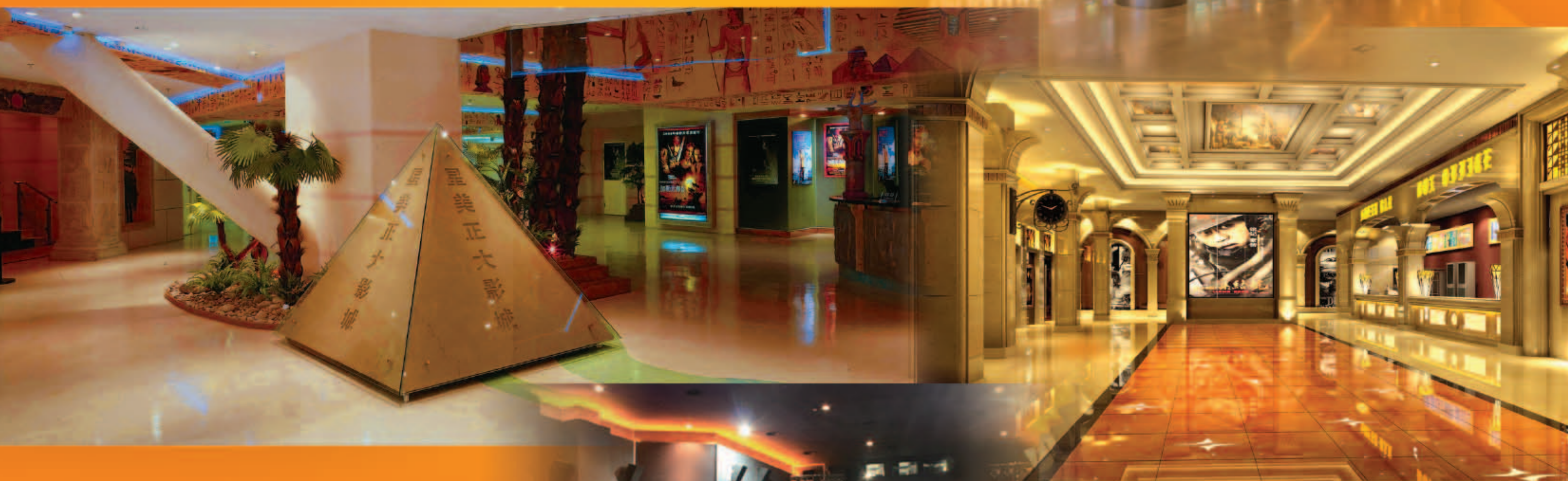
SMI CORPORATION LIMITED
星美國際集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 198)

* For identification purposes only

Theaters
電影院



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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. QIN Hong
(Chairman and Chief Executive Officer)
Mr. SUNG Chit Nim
Mr. HU Yidong
Mr. LI Kai

Independent Non-Executive Directors

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

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

Mr. SUNG Chit Nim
Mr. LAU Chi Yuen

AUDITOR

RSM Nelson Wheeler

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

Chairman's Statement

2010 was the year of notable achievement. Since its resumption of trading on 31 July 2009, the Company keeps on restructuring and improving its business, operational and financial conditions. On one hand, the issuance of convertible notes in January 2010, the issuance of new shares in May 2010 and the top-up placing in October 2010 which raised an aggregate of approximately HK$624 million in cash have provided more capital and liquidity for the Company. On the other, the Company's core business grew rapidly and solidly with the acquisition of 12 movie theater interests in July 2010 and 25 cinema building lease contracts in September 2010. The existing 15 movie theaters contributed huge profit to the Group. The profit of the Group for the year 2010 made a fourfold rise in compared to that of last year.

OVERVIEW

Our group clearly positions itself as one of the leading movie theater operators in China. We are presently doing well and will stick to this strategy by enlarging its market share in the China market in the years to come.

China's film industry is currently moving into a golden era. We will grasp this great opportunity by leveraging the extensive experiences and network of management and shareholder base of the Company.

State Administration of Radio, Film and TV (SARFT), the country's top regulator of the film industry, indicates that the film box offices in China exceed RMB10 billion for the year of 2010, a record high that marked a 64% increase compared with the figure in 2009. It is estimated that the film industry of China will continue to grow at a rate of over 60% both in 2011. We are highly inspired by all these remarkable and encouraging numbers and we are confident that the future of this industry is bright.

Furthermore, in early 2010, the State Council Secretariat Guiding Opinions Concerning Stimulating, Flourishing and Development of the Film Industry specified the film industry into national strategic industries. We read this move as a positive message clearly sent by the Chinese government so as to provide more and more resources for strongly supporting and nurturing the Chinese film industry.

Thanks to the above encouraging and positive factors, film producers, distributors and exhibitors all see the grand and prosperous prospects of the Chinese film industry and have taken steps to extended towards upstream or downstream in order to maximize its profit from every industrial link by the model of production+distribution+movie theater. We are among them.

MOVIE PRODUCTION BUSINESS

We do notice the great opportunities and potential for China's film production market. It is shown that China's top four film producers only accounts for 26% of total film box office, slightly less than the figure of the three American producers in China, 27%. At the present stage, it is well recognized that Chinese productions still have a long way to go when comparing with Hollywood blockbusters like "Avatar" and "Inception", both in terms of creative script ideas and advanced filming techniques, like 3D visual effects. To be positive, however, it also implies that Chinese productions still have vast room to grow, to develop and to excel. We dedicated ourselves to be one of the leading pioneers in movie production area and we are confident that we can make it happen.

We are looking forward to our self-produced Chinese Hollywood blockbusters to be widely accepted both locally and overseas. To achieve this, we put strong efforts and allocate abundant resources in movie production business to invest in several movies in year 2010 and coming 2011.

In mid of 2010, the Company announced the acquisition of Photon VFX, a world's leading visual effects, animation and post-production company based in Queensland, Australia. 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 Group as a whole.

MOVIE THEATER BUSINESS

A research shows that China has a relatively high concentration in cinema circuit field-the top four cinema circuits totally account for 46.8% of box office shares. We, China Film Stellar Theater chain, is one of the top four cinema circuits. We will make good use of this advantage to maximize our gain and keep strengthening our position by acquiring more cinemas into our China Film Stellar Theater chain in the years ahead.

Along with the explosive growth of film box office, only approximately 130 films of the total 465 China-produced films were exhibited in cinemas in 2009. The rest two-third were not, which was mainly caused by a shortage of cinemas and screens. Therefore, cinema investment will be the holy grail of the industry in a long run. We fully understand the trend and the need to carry out cinema investment in the China market at the very beginning.

During year 2010, we have acquired the interests in 12 movie theaters in China. The acquisition was completed on 15 July 2010. As a result, the Company has become one of the leading Chinese theater operators with 15 theaters currently in operation as of 31 December 2010. Our theaters are with national coverage locating in tier one cities of Beijing (four movie theaters), Shanghai (three movie theaters) and Guangzhou and in regional centers in China; namely, Tianjin, Chongqing, Chengdu (two movie theaters), Shenyang, Xuzhou and Lanzhou. Together with the 3 movie theaters the Company had operated since July 2009, the Company is now operating a total of 15 multi-screen movie theaters with up to 105 screens and 15,822 seats in total.

In spite of the strong growth of film box office revenue in first-tier cities like Beijing, Shanghai and Guangzhou, competition in this region increasingly intensified at the same time. In comparison, the emerging second-tier and third-tier cities becomes more attractive. As a result, we are expanding into emerging second-tier and third-tier cities which have greater market potential based on the analysis of comprehensive factors like consumption level of urban residents, cinema box office, regular urban population, audience number per exhibition, local housing price, cinema number and screen number.

In July 2010, the Group and Xingmei Investment Company Limited entered into the Agreement in relation to the transfer of Leases for 25 movie theaters in China (the "Transfer"). Upon completion of the Transfer, the Group will invest in the screens and other facilities located in the theaters to be constructed on the leased properties. The Group will participate, directly or 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. Except Beijing, Chongqing, Shenyang, Xuzhou, Shanghai and Tianjin, the Group will further expand into second-tier and third-tier cities like Changsha, Changchun, Hefei, Changshu, Qingdao, Xian, Hefei, Guiyang, Suzhou, Nanjin, Kunming, Yantai, Longkou, Wuxi, Harbin, Wujiang which have greater potential.

The acquisitions of 12 movies theater and transfer of leases for 25 movie theaters ("Acquisition") are in line with the Group's intention to expand its portfolio of cinemas and will allow the Group to capitalize in the growth of the cinema market in the China. Apart from the Acquisitions, the Group is continuing to expand its cinema portfolio across the first tier cities in China.

To conclude, taking the lead in the theater operation business and demonstrating great success, during the year 2010, the Group's performance is very encouraging. We successfully generate great value for both our business and our shareholders. Moving ahead, we will do our best to create strong growth momentum.

Sincerely,

Qin Hong
Chairman

Hong Kong, 28 March 2011

Management Discussion and Analysis

BUSINESS REVIEW

In 2009, the Group was experiencing a period of transition and transformation for business restructure. Loss making businesses were largely discontinued and faded out. As at 31 December 2010, the restructuring was substantially completed.

The 2010 financial statements reflect the impact of the growth of the 3 movie theaters which are operating since July 2009 as well as the completion of the acquisition of 12 movie theaters in mid of 2010 on the financial position of the Group.

The Group reported a net profit of HK$123 million for the year ended December 2010 (2009: HK$28 million), which includes an aggregate one-off gain on disposal of subsidiaries, associate and jointly controlled entity approximate to HK$20.5 million. The operating results of the Group for 2010 were fairly encouraging.

Movie Theater Business

In China, the movie industry continues to be one of the most attractive and fastest growing industries in the consumer market. The film box office in China exceeded RMB10 billion in the year of 2010, rising 64% from that in the same period of 2009, showing tremendous potentials of Chinese film market.

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 will be sustained.

On 15 March 2010, the Group entered into an acquisition agreement with Mr. QIN Hui to acquire the interests in 12 movie theaters in China. The acquisition was completed on 15 July 2010 and resulted in the Group becoming one of the leading Chinese theater operators with 15 theaters currently in operation as of 31 December 2010 and with national coverage locating in tier one cities of Beijing, Shanghai and Guangzhou and in regional centers in China; namely, Tianjin, Chongqing, Chengdu, Shenyang, Xuzhou and Lanzhou. Together with the 3 existing movie theaters, which are operating since July 2009, the Group is now operating a total of 15 multi-screen movie theaters with up to 105 screens and 15,822 seats in total.

For the year ended 31 December 2010, the film exhibition segment has generated total revenues of HK$334 million and segment profit of HK$82 million, representing about 74% of total segment profit of the Group.

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

In mid of 2010, the Company announced the acquisition of Photon VFX, a world's leading visual effects, animation and post-production company based in Queensland, Australia.

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.

SMI-Photon 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.

Operation and Management of 25 Movie Theatres

In July 2010, the Group and Xingmei Investment Company Limited entered into the Agreement in relation to the transfer of Leases for 25 movie theaters in China (the "Transfer"). Upon completion of the Transfer, the Group will invest in the screens and other facilities located in the theaters to be constructed on the leased properties. The Group will participate, directly or 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.

Movie Production

During the year ended 31 December 2010, the Company invested in the film production of many high profile films namely "無人駕駛" (Unmanned), "趙氏孤兒" (Sacrifice), "神奇俠侶" (Mr and Mrs Incredible) and "武俠" (Wu Xia), etc. Among them, "趙氏孤兒" (Sacrifice) and "無人駕駛" (Unmanned) were started to be shown in 2010 and will give us positive return on investment.

PROSPECTS

With the continuing growth of the movie industry in China, the China theater operation business of the Group is expected to experience an even more rapid growth this year.

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. In addition to additional capacity to our theaters operation, in view of the increasing popularity of 3D presentations, the Group is adding more 3D systems to its movie theaters.

These 3D movies will be shown in the Group's cinemas. The Group has ordered IMAX systems to enhance the 3D capability in the Group's cinemas. The Group will continue to expand its movie theater portfolio to become one of leading movie theater operators in China.

Looking forward, the Group is continuing it Solicits and pursues the new lease agreements and acquisition opportunities to further expand our cinema network throughout the China.

FINANCIAL REVIEW

CHANGE OF FINANCIAL YEAR END DATE

To coincide with the financial year end date of film exhibition business of the Group in Mainland China, the Company changed its financial year end date from 31 March to 31 December starting from the financial year 2009. Accordingly, the financial year 2009 covers a period of 9 months from 1 April 2009 to 31 December 2009. When making year-on-year comparisons with current year (2010: 12 months from 1 January 2010 to 31 December 2010), the difference in duration of the two financial periods should be considered.

Turnover, revenues and profit for the year

Total turnover and revenue during the year ended 31 December 2010 were HK$771 million and HK$357 million (2009: HK$327 million and HK$72 million) respectively. The amount increased more than a double of the year 2009.

The profit for the year ended 31 December 2010 was HK$123 million (2009: HK$28 million). The increase in profit was almost 4.3 times that of year 2009.

Film exhibition segment alone accounted for more than 90% of total revenue, amounted to HK$334 million (2009: HK$65 million) and 74% of segment profit, amounted to HK$82 million (2009: HK$12 million).

The drastic increase in revenue and profit were mainly due to the growth and expansion of the theater operation business operated by the group.

Based on the impressive results of current year, the Company expects the theater operating business continue to generate high profit margin in the years to come.

Selling and marketing and administrative expenses

The increase in selling and marketing and administrative expenses were mainly due to increase in the number of theaters acquired during the year ended 31 December 2010.

Finance cost

Finance cost mainly represented effective interest of HK$480 million convertible notes issued during the year.

Gain on disposal of subsidiaries

This represented the gain on disposal of certain subsidiaries with net liabilities during the year. The amount increased from HK$309,000 to HK$14,877,000. Most of the inactive and loss making subsidiaries with net liabilities were disposed of during 2009 and 2010.

Financial resources and Liquidity

As at 31 December 2010, the Group maintained sufficient liquid fund and had net current assets of HK$404 million. The net current assets included a substantial cash reserve of HK$254 million, an increase of HK$178 million from HK$76 million as at 31 December 2009. The increase was mainly due to cash proceeds of HK$624 million from the issuance of convertible notes and placement of new shares.

The Group's net assets were HK$2,060 million, representing an increase of HK$1,860 million from HK$200 million as at 31 December 2009. This was mainly due to the conversion of convertible notes, placement of new shares, issuance of convertible notes and profit earned during the year.

Debt and gearing

The gearing ratio (Total borrowings including convertible notes to equity attributable to equity holders of the Company) increased from 0% to 22% as at 31 December 2010 (2009: 0%) as a result of the issue of convertible notes on 16 July 2010.

The Group was financed primarily through share capital and reserve. There was no bank borrowing as at 31 December 2010.

Foreign exchange risks

The Company reports its financial statements in Hong Kong dollars. All of the theater operation business revenue and operating costs were denominated in Renminbi ("RMB"). The expansion of the theater operation business will be principally in China. Company will therefore be exposed to exchange loss if HK$ strengthens against the 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.

Capital Expenditure

During the year, the Group incurred capital expenditure of approximately HK$34 million and prepayment for construction contracts of HK$115 million which were financed by internal resources of the Group. The construction contracts were related to building of theaters on 25 newly acquired leases areas through out 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 are total 597 full-time staff as at 31 December 2010 (including directors but excluding part-time staffs). The Company offers remuneration and benefit packages to its employees according to the prevailing salary levels in the market, individual merits and performance.

Biographical Information of Directors

EXECUTIVE DIRECTORS

Mr. QIN Hong, aged 39, executive director of the Company, and appointed as chairman of the Company (the "Chairman") on 26 March 2010 and as chief executive officer of the Company on 17 December 2010. Mr. QIN Hong is the younger brother of Mr. QIN Hui, the controlling shareholder of the Company. Mr. QIN Hong graduated from 北京城市學院 Beijing City University with a Bachelor Degree in Energy Applications and has over seven years of experience in the telecommunication industry in the People's Republic of China ("PRC"). He is currently Chairman of Stellar Megamedia Group Ltd.（星美傳媒集團有限公司）and Stellar Mega Films Co., Ltd.（星美（北京）影業有限公司）. He has been engaged in the communications, television and broadcast systems integration, market operation and media investment businesses for many years, and has substantial experience in the operation and management of telecommunication enterprises and in the investment and management of cultural media enterprises.

Mr. SUNG Chit Nim ("Mr. SUNG"), aged 45, was appointed as executive director of the Company on 17 December 2010. Mr. SUNG graduated from William Paterson University and obtained a Master Degree in Business Administration in American Intercontinental University. He also possesses the qualification as a United States certified public accountant. Mr. SUNG has held senior positions, including the president, director and chief financial officer, in various renowned listed companies in the United States and the PRC, and has extensive experience in corporate finance, corporate management and investors' relationship, etc. Mr. SUNG served as an independent director and the chairman of the audit committee of HollySys and SOKO Fitness & Spa Group, Inc., both are PRC companies listed in the United States, from January 2008 and October 2010 respectively. In June 2009, Mr. SUNG joined Linktone Ltd. a PRC Company listed in the United States, as deputy chief executive officer and chief financial officer.

Mr. HU Yidong ("Mr. HU"), aged 47, executive director of the Company. Mr. HU graduated from Tsinghua University with a Master Degree in Executive Master of Business Administration. He is experienced in corporate management and information management system and has over seven years of experience in the management of cinema business in China. Mr. HU is currently the chief executive officer of Stellar Megamedia Group Limited（星美傳媒集團有限公司）, a company registered in PRC. He was a vice president of Stellar Megaunion Corporation, a company listed on the Shenzhen Stock Exchange, and an executive director of See Corporation Limited (stock code: 491), a company listed on the main board of the Hong Kong Stock Exchange.

Mr. LI Kai ("Mr. LI"), aged 49, was appointed executive director of the Company on 26 March 2010. Mr. LI graduated from the Postgraduate School of the China Academy of Social Sciences. Mr. LI has over 15 years of experience in corporate management both in PRC and the United States.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. HE Pei Gang ("Mr. HE"), aged 64, independent non-executive director of the Company, and is also chairman of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. Mr. HE is a qualified certified public accountant and has the title of senior accountant issued by Ministry of Finance in China. He is a council member of a number of institutions such as Association of Beijing Internal Audit, Beijing Institute of Certified Public Accountants, Beijing Keji Jinrong Cujinhui, Beijing Zhongguancun Enterprises Credit Promotion Association. Mr. HE is also a perennial finance expert for Innovation Fund of the Ministry of Science and Technology, Beijing Municipal Development and Reform Commission, Audit Bureau of the Beijing Economic and Technological Development Zone and Beijing Civil Affairs Bureau. He is currently the chief accountant of ordinary partner and chief partner of Beijing CRC United Certified Public Accountants General Partner. He attended the training for independent directorship organised by the Securities Association of China in 2003.

Mr. PANG Hong ("Mr. PANG"), aged 57, independent non-executive director of the Company, and is also members of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. Mr. PANG had worked for various enterprises and government departments in China for about 20 years. He has substantial knowledge of the investment environment in China and has extensive experience in the management of Chinese companies. After studying in the United States for 3 years, he came to Hong Kong to further his career development. Mr. PANG was a former executive director of Pacmos Technologies Holdings Limited (Stock Code: 1010), a company listed on the main board of the Hong Kong Stock Exchange. He is currently engaged in providing private management consultancy services and has been appointed independent non-executive director of Ruyan Group (Holdings) Limited (Stock Code: 329), whose shares are listed on the main board of the Hong Kong Stock Exchange.

Mr. CHAN Sek Nin ("Mr. CHAN"), Jackey, aged 55, independent non-executive director of the Company, and is also members of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. Mr. CHAN has over 18 years of solid experience in sales and marketing in connection with the media industry by holding senior positions in Television Broadcasts Limited as well as an extensive experience in property development, project management and strategic alliance management. He was appointed independent non-executive director of Wonson International Holdings Limited (stock code: 651) during the period from 12 April 2007 to 29 May 2008 and independent non-executive director of China Strategic Holdings Limited (stock code: 235) during the period from 6 June 2007 to 2 October 2007, both companies are listed on the main board of the Hong Kong Stock Exchange. Mr. CHAN is currently a non-executive director of PSC Corporation Limited, a company listed on the Singapore Exchange Securities Trading Limited, and the Chief Operating Officer of Hanny Holdings Limited (stock code: 275), a company listed on the main board of the Hong Kong Stock Exchange.

Directors' Report

The Directors present their annual report and the audited financial statements of the Company for the year ended 31 December 2010 (the "Reporting Period").

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 46 to the consolidated financial statements. The Company and its subsidiaries are hereinafter collectively referred to as the Group.

Details of the Company's principal subsidiaries, jointly controlled entities and associates at 31 December 2010 are set out in notes 46, 21 and note 20 to the consolidated financial statements on pages 99 to 101, 80 to 81 and 77 to 79 respectively.

RESULTS AND APPROPRIATIONS

The results of the Group for the Reporting Period are set out in the consolidated income statement on page 28 to 29.

No dividend was paid during the Reporting Period. The Directors do not recommend the payment of a final dividend in respect of the Reporting Period.

SHARE CAPITAL AND RESERVES

As at 31 December 2010, the total number of shares issued by the Company was 6,474,488,044 Shares.

Movements in the Company's authorized and issued share capital are set out in note 36 to the consolidated financial statements on page 90 to 91. Movements in the reserves of the Group are set out in the consolidated statement of changes in equity on page 32 and those of the Company are set out in note 47 to the consolidated financial statements on page 102.

Changes in authorized and issued share capital of the Company during the Reporting Period are also outlined below:

(i) Pursuant to an ordinary resolution passed by the Company's shareholders at a general meeting held on 10 June 2010, the Company increased its share capital from HK$500,000,000 to HK$1,000,000,000 by the creation of additional 5,000,000,000 ordinary shares of HK$0.1 each.

 Pursuant to an ordinary resolution passed by the Company's shareholders at a special general meeting held on 15 December 2010, the Company increased its share capital from HK$1,000,000,000 to HK$2,000,000,000 by the creation of additional 10,000,000,000 ordinary shares of HK$0.1 each.

(ii) On 2 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$219,132,000. 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.

(iii) On 6 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 33(a) sets out the details of the convertible notes.

(iv) On 16 July 2010, the Group acquired the entire equity interests in GDL Nonimee Ltd ("GDL") and SMI International Cinemas Ltd ("SMIIC") by the allotment and issuance of a total of 2,440,677,966 new shares of HK$0.1 each at the consideration price of HK$0.295 per share. Further details of the above transaction are set out in the announcement of the Company dated 15 July 2010 and notes 37 to the consolidated financial statements.

(v) On 20 October 2010, the Company entered into a placing and subscription agreement pursuant to which the Company could issue, a maximum of 672,300,000 new shares of HK$0.1 each at the subscription price of HK$0.48 per share. The gross proceeds from this subscription was approximately HK$322,704,000. The agreement was completed and the 672,300,000 new shares in the Company were duly issued and allotted on 22 October 2010. Further details of the above transactions are set out in the announcements of the Company dated 21 October 2010.

PROPERTY, PLANT AND EQUIPMENT

Details of the Group's property, plant and equipment as at 31 December 2010 are set out in note 17 to the consolidated financial statements on page 73.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors of the Company during the Reporting Period and up to the date of this report were:

Executive directors:

Mr. QIN Hong *(appointed as Chairman on 26 March 2010, temporarily appointed as Chief Executive Officer on 17 December 2010)*
Ms. XIAO Ping *(resigned as executive director and Chief Executive Officer on 17 December 2010)*
Mr. SUNG Chit Nim *(appointed executive director on 17 December 2010)*
Mr. HU Yidong
Mr. LI Kai *(appointed executive director on 26 March 2010)*

Non-executive director:

Mr. WONG Kui Shing, Danny *(resigned as Chairman and non-executive director on 26 March 2010)*

Independent non-executive directors:

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

In accordance with bye-laws 86(2) of the Company's bye-laws, Mr. SUNG Chit Nim will hold office only until the forthcoming special general meeting or the forthcoming annual general meeting, whichever is earlier, and being eligible, offer himself for re-election.

In accordance with bye-laws 87(1) and 87(2) of the Company's bye-laws, QIN Hong and CHAN Sek Nin, Jackey will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. However, Mr. HE Peigang will retire and, being eligible, will offer himself for re-election at the forthcoming annual general meeting if Mr. SUNG Chit Nim will hold office and offer himself for re-election on the forthcoming special general meeting.

Only three Independent non-executive Directors have entered into a service contract with the Company for a term of three years. The service contract can be terminated by either party by giving three months' notice to the other party.

All annual remuneration packages were determined on arm's length negotiations between the parties based on their respective contributions to and responsibilities in the Company.

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory compensation.

DIRECTORS AND CHIEF EXECUTIVE OFFICER'S INTERESTS

As at 31 December 2010, the interests and short positions of the directors and chief executives in the shares of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in the Listing Rules were as follows:

Interests in the shares and underlying shares of the Company

Directors	Capacity	Registered shareholders	Corporate Interest	Long position	Short position	% of total issued shares
HU Yidong	Beneficial Owner	–	–	15,000,000	–	0.23%
LI Kai	Beneficial Owner	–	–	5,000,000	–	0.08%
QIN Hong	Beneficial Owner	–	–	33,000,000	–	0.51%

Save as disclosed above, as at 31 December 2010, none of the Directors or the chief executives or their associates had any interests or short positions in any shares,underlying shares or debentures of the Company, subsidiaries or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

The Company adopted a new 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 39 to the consolidated financial statements.

During the year ended 31 December 2010, certain existing 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.

			Number of share options					
Name	Date of grant	Exercise period (Note)	Balance as at 1 January 2010	Granted during the year	Exercised during the year	Lapsed during the year	Balance as at 31 December 2010	Exercise price per share HK$
Director								
QIN Hong	11 June 2010	2	–	33,000,000	–	–	33,000,000	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	–	86,075,507	–	–	86,075,507	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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2010, so far as is known to the Directors, the following parties (other than the Directors and chief executives of the Company) had interests of 5% or more in the issued share capital of the Company as recorded in the register required to be kept under Section 336 of SFO:

Substantial Shareholders	Registered shareholders	Corporate Interest	Long position	Short position	% of total issued shares
Mr. QIN Hui	5,997,508,961 (Note 1)	23,878,623 (Note 2)	6,021,387,584	–	93%
Kingston Finance Limited ("Kingston")	1,757,118,644	–	1,757,118,644 (Note 3)	–	27.13%
Ample Cheer Limited ("Ample Cheer")	1,757,118,644	–	1,757,118,644 (Note 3)	–	27.13%
Best Forth Limited ("Best Forth")	1,757,118,644	–	1,757,118,644 (Note 3)	–	27.13%
Chu Yuet Wah ("Madam Chu")	1,627,118,644	130,001,063	1,757,119,707 (Note 4)	–	27.13%
FIL Limited	461,196,000	–	–	–	7.12%

Notes:

1. Mr. QIN Hui is beneficially interested in the convertible note in the principal amount of HK$480 million issued by the Company which is convertible into 1,627,118,644 Shares at the conversion price of HK$0.295 per Share.

2. Mr. QIN Hui owns the entire interest in Strategic Media International Limited ("SMIL") and was accordingly deemed to be interested in 23,878,623 shares of the Company which are held by SMIL.

3. According to the Corporate Substantial Shareholder Notices filed by Kingston, Ample Cheer and Best Forth on 8 December 2010, Kingston, as person having a security in shares, is interested in 1,757,118,644 Shares which comprise (i) 1,627,118,644 underlying Shares and (ii) 130,000,000 Shares. Since Kingston is wholly-owned by Ample Cheer who in turn in 80%-owned by Best Forth,Ample Cheer and Best Forth are deemed to be interested in 1,757,118,644 Shares held by Kingston.

4. According to the Individual Substantial Shareholder Notice filed by Madam Chu on 27 August 2010, Madam Chu is deemed to be interested in 1,757,119,707 Shares which comprise (i)1,627,118,644 underlying Shares and (ii) 130,001,063 Shares through corporations controlled by her.

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.

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 Reporting Period or at any time during the Reporting Period.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the Reporting Period was as follows:

	Percentage of the Group's total Sales	Purchases
The largest customer	8%	
Five largest customers in aggregate	24%	
The largest supplier		53%
Five largest suppliers in aggregate		70%

None of the Directors, their associates or any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

During the Reporting Period, other than those disclosed in note 36 to the consolidated financial statements, none of the Company or any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company.

PUBLIC FLOAT

As at 31 December 2010, the Company has maintained the prescribed public float under the Listing Rules based on the information that is publicly available to the Company and within the knowledge of the Directors.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive right under the Company's bye-laws, or the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefit schemes are set out in note 15 to the consolidated financial statements on page 71.

CONTINGENT LIABILITIES

As at 31 December 2010, the Group and the Company did not have any significant contingent liabilities.

EVENTS AFTER THE REPORTING PERIOD

Details of significant events occurring after the balance sheet date are set out in note 48 to the consolidated financial statements on page 103.

FIVE YEAR SUMMARY

A summary of the results and the assets and liabilities of the Group for the last four financial years and the Reporting Period is set out on page 104 of the annual report.

AUDITORS

SHINEWING (HK) CPA Limited, resigned as auditors of the Company on 24 December 2010. On 28 December 2010, RSM Nelson Wheeler ("RSM") was appointed auditor of the Company. A resolution for the reappointment of RSM as auditor of the Company will be proposed at the forthcoming annual general meeting.

By order of the Board
QIN Hong
Chairman

Hong Kong, 28 March 2011

Corporate Governance Report

OVERVIEW OF CORPORATE GOVERNANCE

The Company has established a corporate governance framework comprising principally the Bye-laws and internal control handbook of the Company to implement the Code of Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules.

CODE ON CORPORATE GOVERNANCE PRACTICES

During the year ended 31 December 2010 (the "Reporting Period"), the Company was in compliance with the provisions of the CG Code, except for the deviations from Code Provisions A.2 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. Mr. QIN Hong is the Chairman of the Company. The primary role of the Chairman is to oversee the operation of the Board and to ensure that it works effectively in the discharge of its responsibilities. However, following the resignation of Ms. XIAO Ping as the executive director and CEO of the Company on 17 December 2010, the Board has temporarily appointed Mr. QIN Hong to hold the position of CEO of the Company on the same date. The roles of the Chairman and CEO are set out in detail in the bye-laws 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 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 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.

BOARD OF DIRECTORS

The Company is headed by the Board which is responsible for directing and supervising the Company's affairs.

As at the date of this report, the Board comprises four executive Directors and three independent non-executive Directors. Biographies of all the Directors and the relationships (if any) among them are set out on pages 10 to 11 of this annual report.

The Company has received annual confirmations from all independent non-executive Directors that, save as disclosed in the annual report, they did not have any business or financial interest with the Company or its subsidiaries and were independent as at 31 December 2010 in accordance with Rule 3.13 of the Listing Rules. The Company considers that all the existing independent non executive Directors are independent.

Functions and responsibilities reserved to the Board and the functions and responsibilities delegated to management are as follows:

The Board shall be responsible for:

- Approval of corporate and business strategies of the Company
- Approval of the annual budgets and financial reports of the Group
- Monitoring the operating and financial performance of the Group
- Declaration of dividend to the shareholders of the Company
- Approval of Investment proposals of the Company
- Restructuring and spin off relating to the Group
- Overseeing the processes for evaluation of the adequacy of internal controls, risk management, financial reporting and compliance
- Corporate governance

The management shall be responsible for:

- Day to day operations of the Company and its subsidiaries as delegated by the Board to the management led by the Chief Executive Officer
- Formulation of corporate and business strategies to be approved by the Board
- Execution of corporate and business strategies approved by the Board
- Formulation of investment, acquisition, mergers or spin off proposals
- Execution of investment, acquisition, mergers or spin off proposals and approved by the Board

During the year ended 31 December 2010, 47 Board meetings were held. The attendance records of each director at such meetings are set out below:

Name of Director	Number of Attendance
Mr. QIN Hong (Note (a))	21/47
Mr. HU Yidong	42/47
Mr. LI Kai (Note (b))	6/32
Mr. HE Peigang	12/47
Mr. PANG Hong	24/47
Mr. CHAN Sek Nin, Jackey	24/47
Mr. SUNG Chit Nim (Note (c))	1/4
Ms. XIAO Ping (Note (d))	38/43
Mr. WONG Kui Shing, Danny (Note (e))	9/15

Note:

(a) Appointed Chairman on 26 March 2010 and Chief Executive Officer on 17 December 2010.

(b) Appointed executive director on 26 March 2010.

(c) Appointed executive director on 17 December 2010.

(d) Resigned as executive director and Chief Executive Officer on 17 December 2010.

(e) Resigned as non-executive director and Chairman on 26 March 2010.

Board minutes are kept by the secretary of the Company (the "Secretary") and are open for inspection by the directors of the Company. Every director of the company is entitled to have access to Board papers and related materials and has unrestricted access to the advice and services of the Secretary, and has the liberty to seek external professional advice if so required.

NON-EXECUTIVE DIRECTORS

There are currently three non-executive Directors, all of them are independent. Each independent non-executive Director has entered into a service agreement with the Company for a period of three years. Pursuant to the bye-laws of the Company, one third of all the directors, including the non-executive directors, shall be subject to retirement by rotation at each annual general meeting.

One of three independent non-executive Directors is professional accountant and two of them possess the related extensive management experience. This composition is in compliance with the requirement of rule 3.10 of the Listing Rules. Each independent non-executive director has, pursuant to rule 3.13 of the Listing Rules, provided an annual confirmation of his independence to the Company and the Company also considers them to be independent.

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, Mr. HE Peigang (as chairman), Mr. PANG Hong and Mr. CHAN Sek Nin, Jackey.

The primary function of Audit Committee are to monitor integrity of the annual report and accounts and half-year report of the Company and to review significant reporting judgements contained in such reports; to review the Group's financial and accounting policies and practices; to review the Group's financial control, internal control and risk management system of the Group with particular regard to their effectiveness and to make recommendations to the Board where the monitoring activities of the committee reveal cause for concern or scope for improvement.

The Audit Committee held 3 meetings during the year ended 31 December 2010 to consider the full year audit report for fiscal 2010. The attendance records of the meetings are as follows:

Name	Attendance
HE Peigang	3/3
PANG Hong	3/3
CHAN Sek Nin, Jackey	3/3

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

The principal responsibilities of the remuneration committee include making recommendations to the Board on the Company's policy and structure for all remuneration of all Directors and senior management on the establishment of a formal and transparent procedure for developing policy on such remuneration; reviewing the specific remuneration packages of all Directors and senior management by reference to corporate goals and objective resolved by the Board from time to time; ensuring no Director or any of his associates is involved in deciding his own remuneration and advising shareholders on how to vote with respect to any service contracts of directors that requires shareholders' approval.

A Remuneration Committee meeting was held during the year ended 31 December 2010 to review the remuneration of Directors and senior management for the financial year ended 31 December 2010 and to make recommendations on the remuneration package of the newly appointed Directors. The attendance records of the meeting is as follows:

Name	Attendance
HE Peigang	1/1
PANG Hong	1/1
CHAN Sek Nin, Jackey	1/1

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, Mr. HE Peigang (as chairman), Mr. PANG Hong and Mr. CHAN Sek Nin, Jackey.

The primary function of the Nomination Committee is to make recommendations to the Board on potential candidates to fill vacancies or additional appointment on the Board and senior management. All appointments of directors were nominated by the Nomination Committee based on considerations including vacancy available, competence and experience, possession of requisite skills and qualifications, independence and integrity.

The Nomination Committee held 2 meetings during the year ended 31 December 2010. The attendance records of the meetings are as follows:

Name	Attendance
HE Peigang	1/2
PANG Hong	2/2
CHAN Sek Nin, Jackey	2/2

REMUNERATION OF THE AUDITORS

The remuneration in respect of audit services provided by auditors of the Group for the year ended 31 December 2010 is HK$1,150,000. The Company also paid to SHINEWING and Messrs. FTW & Partner CPA Limited of total audit fees of HK$1,105,000 and HK$405,000 for various audit services prior to their resignation as auditor of the Company on 24 December 2010 and 3 March 2010 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.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledges its responsibility to prepare the consolidated financial statements for each financial year which give a true and fair view of the state of affairs of the Group and that appropriate accounting policies have been selected and applied consistently.

The responsibilities of the auditors of the Company in preparing the consolidated financial statements are set out in the independent auditor's report on pages 25 to 27 of this annual report.

INDEPENDENT AUDITOR'S REPORT

RSM! Nelson Wheeler
中瑞岳華（香港）會計師事務所
Certified Public Accountants

TO THE SHAREHOLDERS OF SMI CORPORATION LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of SMI Corporation Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 28 to 103, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

BASIS FOR QUALIFIED OPINION

(a) Opening balances and corresponding figures

The consolidated financial statements of the Group for the period ended 31 December 2009, which forms the basis for the corresponding figures presented in the current year's consolidated financial statements, was qualified by the preceding auditor because of the significance of the possible effect of the limitations on the scope of the audit including (i) Interests in associates, share of results of associates, impairment loss recognised on interests in associates and loss on disposal of an associate; (ii) Interests in jointly controlled entities, share of results of jointly controlled entities and impairment loss recognised on interests in jointly controlled entities; (iii) Trade and other payables; and (iv) Gain on deconsolidation/disposal of subsidiaries. Details of the above mentioned qualified audit opinions are set out in the independent auditor's report dated 28 April 2010 issued by the preceding auditor and included in the Company's annual report for the period from 1 April 2009 to 31 December 2009.

(b) Share of results of associates and gain on disposal of associates

The Group has disposed of Applause Holdings Limited ("Applause") and 星美影院發展有限公司 during the year and a gain on disposal of associates amounted to HK$4,000,000 were recognised in the consolidated profit or loss for the year ended 31 December 2010. We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the accuracy of the financial position as at 1 January 2010 and at the disposal date, and of the results from 1 January 2010 to date of disposal of the associates being disposed of, and whether the amount of gain on disposal of associates and share of profits of associates had been accurately recorded in the consolidated income statement. Any adjustments to the figures might have a consequential effect on the results for the year.

(c) Share of results of jointly controlled entities and gain on disposal of jointly controlled entitles

The Group has disposed of the jointly controlled entities, Canaria Holding Limited and Earn Elite Development Limited during the year and a gain on disposal of jointly controlled entities amounted to approximately HK$1,651,000 was recognised in the consolidated profit or loss for the year ended 31 December 2010. We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the accuracy of the financial position as at 1 January 2010 and at the disposal date, and of the results from 1 January 2010 to date of disposal of these jointly controlled entities being disposed of, and whether the amount of gain on disposal of jointly controlled entities and share of profits of jointly controlled entities had been accurately recorded in the consolidated income statement. Any adjustments to the figures might have a consequential effect on the results for the year.

(d) Gain on disposal of subsidiaries

The Group has disposed of a number of subsidiaries during the year and a gain on disposal of subsidiaries amounted to approximately HK$14,877,000 was recognised in the consolidated profit or loss for the year ended 31 December 2010. We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the accuracy of the financial position as at 1 January 2010 and at the disposal date, and of the results from 1 January 2010 to date of disposal of the subsidiaries being disposed of, and whether the amount of gain on disposal of subsidiaries had been accurately recorded in the consolidated income statement. Any adjustments to the figures might have a consequential effect on the results for the year.

QUALIFIED OPINION

In our opinion, except for the possible effects on the corresponding figures and on the current year's consolidated financial statements of the matters as described in the basis for qualified opinion paragraphs, the consolidated financial statements give a true and fair view of the state of the affairs of the Group as at 31 December 2010, 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.

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

28 March 2011

Consolidated Income Statement

For the year ended 31 December 2010

	Notes	Year ended 31.12.2010 HK$'000	Period from 1.4.2009 to 31.12.2009 HK$'000 (Restated)
Continuing operations			
Turnover	6	**771,318**	326,671
Revenue	6	**356,637**	72,029
Cost of sales		**(123,260)**	(46,749)
Gross profit		**233,377**	25,280
Other income	8	**17,244**	109
Gain on disposal of held-for-trading investments		**16,754**	7,743
Selling and marketing expenses		**(72,260)**	(7,365)
Administrative expenses		**(68,445)**	(21,348)
Other operating expenses	9	**(8,468)**	(13,591)
Profit/(loss) from operations		**118,202**	(9,172)
Finance costs	10	**(15,401)**	(1,878)
Impairment loss on interests in associates		**–**	(18,189)
Impairment loss on interests in jointly controlled entities		**–**	(6,727)
Share of profits of associates		**1,477**	–
Share of profits of a jointly controlled entity		**34,682**	–
Gain/(loss) on disposal of an associate		**4,000**	(3,612)
Gain on disposal of jointly controlled entities		**1,651**	–
Gain on disposal of subsidiaries	38	**14,877**	309
Gain on deconsolidation of subsidiaries		**–**	10,326
Equity-settled share-based expenses		**(29,342)**	–
Profit/(loss) before tax		**130,146**	(28,943)
Income tax expense	11	**(7,397)**	(4,196)
Profit/(loss) for the year/period from continuing operations	12	**122,749**	(33,139)
Discontinued operations			
Gain on deconsolidation of a subsidiary	13	**–**	61,132
Profit for the year/period		**122,749**	27,993

	Notes	Year ended 31.12.2010 HK$'000	Period from 1.4.2009 to 31.12.2009 HK$'000 (Restated)
Attributable to:			
Owners of the Company			
Profit/(loss) from continuing operations		**123,365**	(37,130)
Profit from discontinued operation		**–**	61,132
Profit attributable to owners of the Company		**123,365**	24,002
Non-controlling interests			
(Loss)/profit from continuing operations		**(616)**	3,991
Profit from discontinued operation		**–**	–
(Loss)/profit attributable to non-controlling interests		**(616)**	3,991
		122,749	27,993
Earnings/(loss) per share	16		
From continuing and discontinued operations			
– Basic		**HK2.86 cents**	HK1.61 cents
– Diluted		**HK2.66 cents**	N/A
From continuing operations			
– Basic		**HK2.86 cents**	HK(2.49) cents
– Diluted		**HK2.66 cents**	N/A

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Year ended 31.12.2010 HK$'000	Period from 1.4.2009 to 31.12.2009 HK$'000
Profit for the year/period	**122,749**	27,993
Other comprehensive income:		
Exchange differences on translating foreign operations	**3,309**	85
Release of exchange differences to profit or loss upon deconsolidation of a subsidiary	**–**	597
Other comprehensive income for the year/period, net of tax	**3,309**	682
Total comprehensive income for the year/period	**126,058**	28,675
Attributable to:		
Owners of the Company	**126,446**	24,656
Non-controlling interests	**(388)**	4,019
	126,058	28,675

Consolidated Statement of Financial Position

At 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000 (Restated)
Non-current assets			
Property, plant and equipment	17	**153,775**	36,599
Goodwill	18	**1,434,349**	21,343
Intangible assets	19	**224,182**	7,000
Investments in associates	20	**8,813**	–
Investments in jointly controlled entities	21	**44,867**	17,000
Deposit paid for acquisition of property, plant and equipment		**–**	5,533
Deposits paid for investment	22	**83,462**	–
Available-for-sale financial assets	23	**23,020**	–
Rental deposits		**15,000**	–
Prepayments for construction of cinemas	24	**115,203**	–
Deferred tax assets	35	**2,312**	–
		2,104,983	87,475
Current assets			
Inventories	25	**1,592**	518
Trade and other receivables	26	**261,565**	51,485
Held-for-trading investments	27	**13,270**	73,257
Convertible notes designated at financial assets at fair value through profit or loss	28	**28,600**	19,258
Due from associates	29	**16,558**	–
Due from a jointly controlled entity	29	**850**	–
Bank and cash balances	30	**253,817**	76,229
		576,252	220,747
Current liabilities			
Trade and other payables	31	**158,176**	87,077
Due to associates	29	**9,149**	–
Due to a jointly controlled entity	29	**244**	–
Due to related parties	32	**966**	14,928
Current tax liabilities		**3,896**	6,674
		172,431	108,679
Net current assets		**403,821**	112,068
Total assets less current liabilities		**2,508,804**	199,543
Non-current liabilities			
Convertible notes	33	**440,670**	–
Deferred income		**1,640**	–
Deferred tax liabilities	35	**6,739**	–
		449,049	–
NET ASSETS		**2,059,755**	199,543
Capital and reserves			
Share capital	36	**647,449**	251,878
Reserves	47	**1,364,634**	(62,199)
Equity attributable to owners of the Company		**2,012,083**	189,679
Non-controlling interests		**47,672**	9,864
TOTAL EQUITY		**2,059,755**	199,543

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Attributable to owners of the Company											
	Share capital HK$'000	Share premium HK$'000	Other reserve HK$'000	Contributed surplus HK$'000	Foreign currency translation reserve HK$'000 (note (a))	Convertible notes reserve HK$'000	Statutory reserve HK$'000 (note (b))	Share-based payment reserve HK$'000	Accumulated loss HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total Equity HK$'000
At 1 April 2009	31,407	44,150	–	31,172	(415)	–	–	–	(190,484)	(84,170)	–	(84,170)
Total comprehensive income for the period	–	–	–	–	654	–	–	–	24,002	24,656	4,019	28,675
Transfer (note b)	–	–	–	–	–	–	1,665	–	(1,665)	–	–	–
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	16,832	16,832
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(10,987)	(10,987)
Issue of shares	121,121	44,385	–	–	–	–	–	–	–	165,506	–	165,506
Shares issued for acquisition of subsidiaries	84,350	–	(36,615)	–	–	–	–	–	–	47,735	–	47,735
Transaction cost attributable to issue of shares	–	(3,085)	–	–	–	–	–	–	–	(3,085)	–	(3,085)
Recognition of equity component of convertible notes	–	–	–	–	–	4,239	–	–	–	4,239	–	4,239
Conversion of convertible notes	15,000	24,037	–	–	–	(4,239)	–	–	–	34,798	–	34,798
Changes in equity for the period	220,471	65,337	(36,615)	–	654	–	1,665	–	22,337	273,849	9,864	283,713
At 31 December 2009	251,878	109,487	(36,615)	31,172	239	–	1,665	–	(168,147)	189,679	9,864	199,543
At 1 January 2010	251,878	109,487	(36,615)	31,172	239	–	1,665	–	(168,147)	189,679	9,864	199,543
Total comprehensive income for the year	–	–	–	–	3,081	–	–	–	123,365	126,446	(388)	126,058
Transfer (note (b))	–	–	–	–	–	–	14,330	–	(14,330)	–	–	–
Acquisition of subsidiaries (note 37)	–	–	–	–	–	–	–	–	–	–	34,631	34,631
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	–	3,565	3,565
Issue of shares on placement (note 36(b),(e))	117,605	424,231	–	–	–	–	–	–	–	541,836	–	541,836
Shares issued for acquisition of subsidiaries (note 36(d))	244,068	473,492	–	–	–	–	–	–	–	717,560	–	717,560
Transaction cost attributable to issue of shares	–	(17,637)	–	–	–	–	–	–	–	(17,637)	–	(17,637)
Share-based payments	–	–	–	–	–	–	–	29,342	–	29,342	–	29,342
Recognition of equity component of convertible notes (notes 33(a) and (b))	–	–	–	–	–	335,593	–	–	–	335,593	–	335,593
Conversion of convertible notes (note 33(a))	33,898	67,059	–	–	–	(11,693)	–	–	–	89,264	–	89,264
Changes in equity for the year	395,571	947,145	–	–	3,081	323,900	14,330	29,342	109,035	1,822,404	37,808	1,860,212
At 31 December 2010	647,449	1,056,632	(36,615)	31,172	3,320	323,900	15,995	29,342	(59,112)	2,012,083	47,672	2,059,755

Notes:

(a) **Foreign currency translation reserve**

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(e) to the financial statements.

(b) **Statutory reserve**

As stipulated by the relevant laws and regulations for foreign investment enterprises in 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.

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Year ended 31.12.2010 HK$'000	Period from 1.4.2009 to 31.12.2009 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax		
Profit/(loss) before taxation from continuing operations	**130,146**	(28,943)
Profit before taxation from discontinued operation	**–**	61,132
	130,146	32,189
Adjustments for:		
Finance costs	**15,401**	1,878
Interest income	**(1,387)**	(1)
Amortisation of lease contract rights	**1,292**	–
Depreciation	**13,199**	1,443
Share of profits of associates	**(1,477)**	–
Share of profits of a jointly controlled entity	**(34,682)**	–
Fair value (gain)/loss of held-for-trading investments	**(658)**	1,735
Fair value gain of convertible notes designated at financial assets at fair value through profit or loss	**(9,342)**	(1,258)
Dividend income from held-for-trading investments	**(511)**	(314)
(Gain)/loss on disposal of an associate	**(4,000)**	3,612
Gain on disposal of jointly controlled entities	**(1,651)**	–
Gain on disposal of subsidiaries	**(14,877)**	(71,767)
Equity-settled share-based expenses	**29,342**	–
Loss on disposal of property, plant and equipment	**14**	–
Impairment loss on property, plant and equipment	**–**	259
Impairment loss on inventories	**–**	1,000
Impairment loss on interests in associates	**–**	18,189
Impairment loss on interests in jointly controlled entities	**–**	6,727
Impairment loss on other receivables	**204**	49
Operating profit/(loss) before working capital changes	**121,013**	(6,259)
Increase in inventories	**(455)**	(143)
Increase in rental deposits	**(15,000)**	–
(Increase)/decrease in trade and other receivables	**(126,084)**	1,447
Additional cost incurred in investments in film production	**(137,870)**	(7,000)
Return in investments in film production	**12,595**	–
Dividend income from held-for-trading investments	**511**	314
Decrease/(increase) in held-for-trading investments	**60,645**	(74,992)
(Decrease)/increase in trade and other payables	**(33,993)**	25,703
Decrease in deferred income	**(558)**	–
Cash used in operations	**(119,196)**	(60,930)
Income taxes paid	**(6,222)**	(1,891)
Net cash used in operating activities	**(125,418)**	(62,821)

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Notes	Year ended 31.12.2010 HK$'000	Period from 1.4.2009 to 31.12.2009 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of convertible notes designated at financial assets at fair value through profit or loss		**–**	(18,000)
Deposits paid for acquisition of property, plant and equipment		**–**	(5,533)
Net cash inflow from disposal of subsidiaries	38	**198**	–
Purchase of property, plant and equipment		**(28,848)**	(2,268)
Prepayment for construction of cinemas		**(115,203)**	–
Net cash outflow from deconsolidation/disposal of subsidiaries		**–**	(1,205)
Investment in an associate		**(12)**	–
Increase in amounts due from associates		**(7,409)**	–
Increase in amounts due from a jointly controlled entity		**(606)**	–
Proceeds from disposal of associates		**4,000**	6,731
Proceeds from disposal of jointly controlled entities		**18,651**	–
Net cash inflow/(outflow) from acquisition of subsidiaries, net of acquisition cost	37	**16,749**	(3,919)
Acquisition of trademark		**(25,120)**	–
Acquisition of available-for-sale financial assets		**(23,020)**	–
Prepaid building lease rights		**(40,000)**	–
Deposits paid for investments		**(83,462)**	–
Interest received		**1,239**	1
Net cash used in investing activities		**282,843**	(24,193)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares, net of issuing costs		**524,199**	162,421
Proceeds from issue of convertible notes		**100,000**	38,955
Repayment of bank and other borrowings		**–**	(31,652)
Dividend paid to non-controlling interests		**–**	(10,987)
Advance to non-controlling interests of subsidiaries		**(23,281)**	–
Capital contribution from non-controlling interests		**3,565**	–
Repayment to related parties		**(14,518)**	(2,550)
Interest paid		**(2,518)**	(1,796)
Net cash generated from financing activities		**587,447**	154,391
NET INCREASE IN CASH AND CASH EQUIVALENTS		**179,186**	67,377
Effect of foreign exchange rate changes		**(1,598)**	10
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**76,229**	8,842
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**253,817**	76,229
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		**253,817**	76,229

1. GENERAL INFORMATION

SMI Corporation Limited (the "Company") 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 set out in note 46 to the financial statements.

In the opinion of the directors of the Company, as at 31 December 2010, Mr. QIN Hui is the controlling shareholder of the Company.

2. FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

The consolidated financial statements up to 31 December 2009 had been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants and the directors of the Company decided to prepare its consolidated financial statements in accordance with IFRSs for its accounting year beginning on 1 January 2010. The consolidated financial statements have been prepared in accordance with IFRSs with effect from this reporting period and the comparative financial statement for the period from 1 April 2009 to 31 December 2009 have been converted in accordance with IFRSs.

The directors of the Company believe 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 IFRSs, the directors of the Company have concluded that no adjustments were required to the amounts reported under HKFRSs as at 1 April 2009, the date of IFRSs adoption, or in respect of the nine months ended 31 December 2009. The adoption of IFRSs has had no financial impact on the Group's financial position as at 1 April 2009, 31 December 2009 and 31 December 2010 or the Group's operating results or cash flows for the nine months ended 31 December 2009 and the year ended 31 December 2010.

The Group has adopted all the new and revised IFRSs issued by the International Accounting Standards Board that are relevant to its operation and effective for accounting year beginning on 1 January 2010. IFRSs comprise International Financial Reporting Standards ("IFRS"); International Accounting Standards ("IAS"); and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies and amounts reported for the current year and prior years except as stated below.

2. FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

Business Combinations

IFRS 3 (Revised) "Business Combinations" continues to require acquisition method to be applied to business combinations with some significant changes:

– Contingent consideration is recognised at its acquisition-date fair value and forms part of the cost of acquisition. The previous IFRS 3 requires that a contingent consideration be recognised if it is probable and can be measured reliably.

– In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the cost of acquisition to calculate goodwill. The previous IFRS 3 does not have a requirement for such fair value measurement.

– There is a choice to measure initially the non-controlling interests in a subsidiary either at their acquisition-date fair value or the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date. The previous IFRS 3 only allows the latter choice.

– If a business combination is accounted for using provisional amounts, the measurement period that the provisional amounts can be adjusted retrospectively is limited to one year from the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. The previous IFRS 3 does not have a time limit for adjustments in relation to contingent considerations and deferred tax assets. Subsequent adjustments to contingent considerations and deferred tax assets will adjust goodwill.

– Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. The previous IFRS 3 requires that acquisition-related costs form part of the cost of a business combination.

IFRS 3 (Revised) has been applied prospectively to business combinations for which the acquisition date is on or after 1 January 2010 and resulted in changes in the consolidated amounts reported in the financial statements as follows:

	2010	2009
	HK$'000	HK$'000
Increase in other operating expenses	**8,152**	–
Decrease in goodwill	**8,152**	–
Decrease in EPS (HK cents)	**0.19**	–

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 financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with IFRSs and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

In last year, the Company changed its financial year end date from 31 March to 31 December in order to conform to the financial year end date of its major subsidiaries which are established in the PRC. Accordingly, the current period financial statements cover a twelve months period ended 31 December 2010 while the comparative financial statements cover a nine months period ended 31 December 2009. The comparative amounts are therefore not entirely comparable.

The preparation of financial statements in conformity with IFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 4 to the financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Consolidation (Continued)

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

(b) Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Company.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the cost of acquisition to calculate the goodwill.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Business combination and goodwill (Continued)

If the changes in the value of the previously held equity interest in the subsidiary were recognised in other comprehensive income, the amount that was recognised in other comprehensive income is recognised on the same basis as would be required if the previously held equity interest were disposed of.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

(c) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has significant influence.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of an associate's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Associates (Continued)

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's share of the net assets of that associate plus any remaining goodwill relating to that associate and any related accumulated foreign currency translation reserve.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) Joint venture

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over the economic activity when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the "venturers").

A jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

Investment in a jointly controlled entity is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the jointly controlled entity in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the jointly controlled entity's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Joint venture (Continued)

The Group's share of a jointly controlled entity's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity. If the jointly controlled entity subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of a jointly controlled entity that results in a loss of joint control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that jointly controlled entity and (ii) the Group's share of the net assets of that jointly controlled entity plus any remaining goodwill relating to that jointly controlled entity and any related accumulated foreign currency translation reserve.

Unrealised profits on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interests in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

(e) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Foreign currency translation (Continued)

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

– Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

– Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

– All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) **Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	the term of the lease
Operation equipment	20%
Broadcasting equipment	10% to 20%
Electronic equipment	33.33%
Furniture, fixtures and equipment	10% to 33.33%
Motor vehicles	20%

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

(g) **Operating lease**

(i) The Group as lessee

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

(ii) The Group as lessor

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Trademark

Trademark acquired by the Group are stated at cost less impairment losses.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset.

(i) Prepaid building lease rights

Prepaid building lease rights are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over the remaining lease terms of the corresponding lease contracts from 10 to 20 years and is subject to the impairment review at the end of the reporting period.

(j) Lease contracts

Lease contracts are the fair value of the difference between the market rent and the minimum lease payment of the lease contract held by the acquired companies at the date of acquisition. Lease contracts are stated at cost and amortised over the remaining lease terms of the corresponding lease contracts.

(k) Investments in film production

Investments in film production is stated at cost less accumulated amortization and impairment loss. Amortisation is charged to the profit or loss based on the proportion of actual income earned during the period to the total estimated income from the distribution of the film. An impairment review is performed annually. Films under production are accounted for on a film-by-film basis.

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(m) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; or the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss.

Investments are classified as either financial assets at fair value through profit or loss or available-for-sale financial assets.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either investments classified as held for trading or designated as at fair value through profit or loss upon initial recognition. These investments are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in profit or loss.

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets not classified as trade and other receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in other comprehensive income, until the investments are disposed of or there is objective evidence that the investments are impaired, at which time the cumulative gains or losses previously recognised in other comprehensive income are recognised in profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

Impairment losses recognised in profit or loss for equity investments classified as available-for-sale financial assets are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale financial assets are subsequently reversed and recognised in profit or loss if an increase in the fair value of the debt instruments can be objectively related to an event occurring after the recognition of the impairment loss.

Unlisted equity securities

Investments in unlisted equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the statement of financial position at cost less impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

(p) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(q) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(r) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Convertible notes

Convertible notes which entitle the holder to convert the loans into a fixed number of equity instruments at a fixed conversion price are regarded as compound instruments consist of a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible notes and the fair value assigned to the liability component, representing the embedded option for the holder to convert the loans into equity of the Group, is included in equity as capital reserve. The liability component is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption.

(t) Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(u) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(v) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Income from box office takings is recognised when the services have been rendered to the buyers.

Income from screen advertising is recognised when the services are provided.

Income from sales of food and beverage, posters and audio-visual products is recognised when the goods are delivered and title has passed.

Income from investments in film production is recognised when the result of the film distribution can be reliably measured and when the income is received or receivables.

Management fee income is recognised upon the provision of the services.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from held-for-trading investments is recognised when the shareholders' rights to receive payment have been established.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(x) Share-based payments

The Group issues equity-settled share-based payments to certain directors, employees and consultants.

Equity-settled share-based payments to directors and employees are measured at fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Equity-settled share-based payments to consultants are measured at the fair value of the services rendered or if the fair value of the services rendered cannot be reliably measured, at the fair value of the equity instruments granted. The fair value is measured at the date the Group receives the services and recognised as expense.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(z) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(z) Taxation (Continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(aa) Related parties

A party is related to the Group if:

(i) directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;

(ii) the party is an associate;

(iii) the party is a joint venture;

(iv) the party is a member of the key management personnel of the Company or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ab) Impairment of assets

Intangible assets that have an indefinite useful life or not yet available for use are reviewed annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except goodwill, trademark, investments in film production, investments, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(ac) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ad) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES

The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The significant accounting policies are set forth in note 3 to the financial statements. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

(a) Impairment loss for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed. If the financial conditions of the debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

(b) Fair value of convertible notes designated at financial assets at fair value through profit or loss

The fair value of the convertible notes involves assumptions on the issuer's credit spread, discount rate, expected credit rating and future cash flows. Should these assumptions change, there would be material changes to the valuation. As at 31 December 2010, the carrying amount of the convertible notes is HK$28,600,000 (2009: HK$19,258,000).

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES (Continued)

(c) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill at the end of the reporting period was HK$1,434,349,000 (2009: HK$21,343,000), no impairment loss was recognised during 2010.

(d) Property, plant and equipment and depreciation

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(e) Impairment loss on investments in film production

At the end of the reporting period, when the present value of the expected future net revenue of investments in film production is estimated to be less than its carrying amount, the carrying amount of films under production will be written down to its present value of the expected future net revenue. If the actual revenue differs from the estimated net revenue expected to be realised, such difference may result in further impairment loss. As at 31 December 2010, the carrying amount of the investments in film production was HK$132,275,000 (2009: HK$7,000,000).

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk, interest rate risk and price risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

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

(b) Credit risk

The carrying amount of the cash and bank balances, trade and other receivables, investments and amounts due from associates and a jointly controlled entity, included in the statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The Group's credit risk is primarily attributable to trade receivables and advances made to some independent third parties which were included in other receivables and bank balances.

In order to minimise the credit risk, the Group reviews the recoverable amount of each individual at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk as 77% (2009: 54%) of the total trade receivables was due from the Group's five largest customers.

The credit risk on liquid funds is limited because majority of the counterparties are reputable banks or banks with high credit-ratings assigned by international credit-rating agencies.

None of the Group's financial assets are secured by collateral or other credit enhancements.

5. **FINANCIAL RISK MANAGEMENT (Continued)**

(c) **Liquidity risk**

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The Group's exposure to liquidity risk is minimal. The Group has settled the bank loan as at 31 December 2009, this had been enabled the Group to mitigate its liquidity risk.

The maturity analysis of the Group's financial liabilities is as follows:

	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000
At 31 December 2010				
Trade and other payables	**125,864**	**–**	**–**	**–**
Due to associates and a jointly controlled entity	**9,393**	**–**	**–**	**–**
Due to related parties	**966**	**–**	**–**	**–**
Convertible notes	**–**	**482,400**	**–**	**–**
At 31 December 2009				
Trade and other payables	69,424	–	–	–
Due to related parties	14,928	–	–	–

(d) **Interest rate risk**

The Group's exposure to changes in interest rate risk is mainly attributable to its bank balances. Bank balances at variable-interest rate expose the Group to cash flow interest rate risk. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. The Group has not formulated a policy to manage the interest rate risk.

At 31 December 2010, if interest rates at that date had been 100 basis points lower with all other variables held constant, consolidated profit after tax for the year would have been HK$1,998,000 (2009: HK$762,000) lower, arising mainly as a result of lower interest income on bank balances. If interest rates had been 100 basis points higher, with all other variables held constant, consolidated profit after tax for the year would have been HK$1,998,000 (2009: HK$762,000) higher, arising mainly as a result of higher interest income on bank.

5. FINANCIAL RISK MANAGEMENT (Continued)

(e) Price risk

The Group is exposed to equity price risk through its investments in listed equity securities and convertible notes designated at financial assets at fair value through profit or loss ("financial assets at FVTPL"). The management manages this exposure by maintaining a portfolio of investments with different risks. The Group's equity price risk is mainly concentrated on equity instruments quoted in the Stock Exchange.

Sensitivity analysis for held-for-trading investments

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If the prices of the respective equity securities included in held-for-trading investments had been 10% (2009: 10%) higher/lower, the consolidated profit after tax for the year ended 31 December 2010 would increase/decrease by approximately HK$1,327,000 (2009: loss decrease/increase by HK$7,326,000) as a result of the changes in fair value of held-for-trading investments.

Sensitivity analysis for convertible notes designated at financial assets at FVTPL

The sensitivity analyses below have been determined based on the exposure to the change of share price and its volatility of the convertible notes at the reporting date only.

If the share prices of convertible notes had been 10% (2009: 10%) higher/lower and all other variables were held constant, the consolidated profit after tax for the year ended 31 December 2010 would increase by HK$1,696,000 (2009: HK$405,000) and decrease by HK$1,664,000 (2009: HK$415,000) respectively, as a result of changes in fair value of convertible notes designated at financial assets at FVTPL.

(f) Categories of financial instruments at 31 December 2010

	2010 HK$'000	2009 HK$'000
Financial assets		
Financial assets at fair value through profit or loss:		
– Held for trading	**13,270**	73,257
– Designated as at FVTPL	**28,600**	19,258
Available-for-sale financial assets	**23,020**	–
Loans and receivables (including cash and cash equivalents)	**514,652**	142,986
Financial liabilities		
Financial liabilities at amortised cost	**576,713**	84,352

5. FINANCIAL RISK MANAGEMENT (Continued)

(g) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

The following disclosures of fair value measurements use a fair value hierarchy which has 3 levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Disclosures of level in fair value hierarchy at 31 December 2010:

	Fair value measurement using:			Total
Description	**Level 1**	**Level 2**	**Level 3**	**2010**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Held-for-trading investment				
– listed equity securities	**13,270**	**–**	**–**	**13,270**
Convertible notes designed at				
financial assets at FVTPL	**–**	**28,600**	**–**	**28,600**
Total	**13,270**	**28,600**	**–**	**41,870**

Disclosures of level in fair value hierarchy at 31 December 2009:

	Fair value measurement using:			Total
Description	Level 1	Level 2	Level 3	2009
	HK$'000	HK$'000	HK$'000	HK$'000
Held-for-trading investment				
– listed equity securities	73,257	–	–	73,257
Convertible notes designed at financial				
assets at FVTPL	–	19,258	–	19,258
Total	73,257	19,258	–	92,515

There have no transfers between levels 1 and 2 during the reporting period. Increase/(loss) arising from fair value changes of held-for-trading investments of approximately of HK$658,000 (2009: loss of HK$1,735,000) was included in the consolidated income statement for the year ended 31 December 2010. Included in the consolidated income statement is amounting approximately HK$9,342,000 (2009: HK$1,258,000) fair value gain related to convertible notes designated at financial assets at FVTPL.

6. TURNOVER AND REVENUE

The Group's turnover which 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 year/period from continuing operations are as follows:

	Year ended 31.12.2010 HK$'000	Period from 1.4.2009 to 31.12.2009 HK$'000
Film exhibition		
– box office income	**331,278**	62,155
– screen advertising income	**2,940**	2,480
Sales of food and beverage	**19,536**	7,080
Dividend income from held-for-trading investments	**511**	314
Distribution of film	**1,287**	–
Others	**1,085**	–
Proceeds from held-for-trading investments	**414,681**	254,642
	771,318	326,671

An analysis of the Group's revenue for the year/period from continuing operation is as follows:

	Year ended 31.12.2010 HK$'000	Period from 1.4.2009 to 31.12.2009 HK$'000
Film exhibition		
– box office income	**331,278**	62,155
– screen advertising income	**2,940**	2,480
Sales of food and beverage	**19,536**	7,080
Dividend income from held-for-trading investments	**511**	314
Distribution of film	**1,287**	–
Others	**1,085**	–
	356,637	72,029

7. SEGMENT INFORMATION

The Group has four reportable segments as follows:

(a)	Film exhibition	–	box office income and screen advertising income
(b)	Café bars	–	sales of food and beverage
(c)	Securities trading	–	trading of marketable securities
(d)	Film production and distribution	–	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 segment include the operating and management business, which earns operating and management income and advertising and public relation services which earn service income for advertising. None of these segments meets any of the quantitative thresholds for determining reportable segments. The information of these other operating segments are included in the "others" column.

The accounting policies of the operating segments are the same as those described in note 3 to the financial statements. Segment profit represents the profit earned by each segment without allocation of central administrative expenses, gain on disposal of subsidiaries, increase in fair value of convertible notes designated at financial assets at FVTPL, gain/(loss) on disposal of an associate, gain on disposal of jointly controlled entities, impairment loss on interests in associates, impairment loss on interests in jointly controlled entities, financial costs, share of results of associates and jointly controlled entities and equity-settled share-based expenses. Segment assets do not include interests in associates, interests in jointly controlled entities, convertible notes designated at financial assets at FVTPL, assets of headquarter and other receivables of the headquarter. Segment liabilities do not include amounts due to related parties, tax payable, other payables of headquarter and convertible notes. Segment non-current assets do not include financial instruments and deferred tax assets. 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.

7. SEGMENT INFORMATION (Continued)

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

	Film exhibition HK$'000	Café bars HK$'000	Securities trading HK$'000	Film production and distribution HK$'000	Others HK$'000	Total HK$'000
Year ended 31 December 2010						
Revenue from external customers	334,218	19,536	511	1,287	–	355,552
Segment profit	81,935	13,233	13,922	1,521	–	110,611
Interest revenue	334	–	1,048	5	–	1,387
Interest expense	(12,270)	(30)	(2,144)	–	(957)	(15,401)
Depreciation and amortisation	(10,797)	(1,140)	–	–	(1,262)	(13,199)
Other material items of income and expense:						
Gain on disposal of subsidiaries	–	–	–	–	14,877	14,877
Increase in fair value of convertible notes designated at financial assets at FVTPL	–	–	9,342	–	–	9,342
Gain on disposal of an associate	–	–	–	–	4,000	4,000
Gain on disposal of jointly controlled entities	–	–	–	–	1,651	1,651
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)	–	–	–	(9)	(7,397)
Other material non-cash items:						
Impairment loss on trade and other receivables	(204)	–	–	–	–	(204)
Additions to segment non-current assets	187,994	10,225	–	162,940	–	361,159
As at 31 December 2010						
Segment assets	2,273,553	36,405	42,098	189,725	–	2,541,781
Segment liabilities	(603,541)	(3,238)	(127)	(25)	–	(606,931)
Investments in associates	8,813	–	–	–	–	8,813
Investments in jointly controlled entities	44,867	–	–	–	–	44,867

7. SEGMENT INFORMATION (Continued)

	Film exhibition HK$'000	Café bars HK$'000	Securities trading HK$'000	Film production and distribution HK$'000	Others HK$'000	Total HK$'000
Period from 1 April 2009 to 31 December 2009						
Revenue from external customers	64,635	7,080	314	–	–	72,029
Segment profit	12,481	3,870	6,322	–	–	22,673
Interest revenue	1	–	145	–	–	146
Interest expense	(795)	–	(1,083)	–	–	(1,878)
Depreciation and amortisation	(1,380)	(22)	–	–	(41)	(1,443)
Other material items of income and expense:						
Gain on deconsolidation of subsidiaries	–	–	–	–	10,326	10,326
Gain on disposal of a subsidiary	–	–	–	–	309	309
Increase in fair value of convertible notes designated at financial assets at FVTPL	–	–	1,258	–	–	1,258
Loss on disposal of an associate	–	–	–	–	(3,612)	(3,612)
Impairment loss on interests in associates	–	–	–	–	(18,189)	(18,189)
Impairment loss on interests in jointly controlled entities	–	–	–	–	(6,727)	(6,727)
Income tax expense	–	–	–	–	(4,196)	(4,196)
Other material non-cash items:						
Impairment of inventories	–	–	–	(1,000)	–	(1,000)
Impairment of assets	(259)	–	–	–	–	(259)
Additions to segment non-current assets	37,731	331	–	–	160	38,222
As at 31 December 2009						
Segment assets	97,744	390	79,525	7,000	–	184,659
Segment liabilities	(35,853)	(735)	(34,515)	–	–	(71,103)
Investments in jointly controlled entities	–	–	–	–	17,000	17,000

Revenue reported above represents revenue generated from external customers. There are no inter-segment sales for the year ended 31 December 2010 (31 December 2009: Nil).

7. SEGMENT INFORMATION (Continued)

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

	Year ended 31.12.2010 HK$'000	Period from 1.4.2009 to 31.12.2009 HK$'000
Revenue		
Total revenue of reportable segments	**355,552**	72,029
Other revenue	**1,085**	–
Consolidated revenue	**356,637**	72,029
Profit or (loss)		
Total profit of reportable segments	**110,611**	22,673
Share of profits of associates	**1,477**	–
Share of profits of a jointly controlled entity	**34,682**	–
Other profit or (loss)	**426**	(12,012)
Unallocated amounts:		
Fair value gain on convertible notes designated as financial assets at FVTPL	**9,342**	1,258
Gain on deconsolidation of subsidiaries	**–**	10,326
Gain on disposal of subsidiaries	**14,877**	309
Gain/(loss) on disposal of an associate	**4,000**	(3,612)
Gain on disposal of jointly controlled entities	**1,651**	–
Impairment loss on interests in associates	**–**	(18,189)
Impairment loss on interests in jointly controlled entities	**–**	(6,727)
Equity-settled share-based payments	**(29,342)**	–
Corporate expenses	**(17,578)**	(22,969)
Consolidated profit/(loss) before tax	**130,146**	(28,943)
Assets		
Total assets of reportable segments	**2,541,781**	184,659
Investments in associates	**8,813**	–
Investments in a jointly controlled entity	**44,867**	17,000
Other assets	**–**	106,563
Unallocated amounts:		
Deposits paid for investments	**83,462**	–
Deferred tax assets	**2,312**	–
Consolidated total assets	**2,681,235**	308,222
Liabilities		
Total liabilities of reportable segments	**606,931**	71,103
Other liabilities	**3,914**	30,902
Unallocated amounts:		
Current tax liabilities	**3,896**	6,674
Deferred tax liabilities	**6,739**	–
Consolidated total liabilities	**621,480**	108,679

7. SEGMENT INFORMATION (Continued)

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	
	Year ended 31.12.2010 HK$'000	Period from 1.4.2009 to 31.12.2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Hong Kong	**1,596**	314	**10,259**	–
PRC except Hong Kong	**355,041**	71,715	**2,069,392**	87,475
Consolidated total	**356,637**	72,029	**2,079,651**	87,475

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

Revenue from major customers:

There is no major customer contributing over 10% of the Group's revenue for the year ended 31 December 2010 and for the period from 1 April 2009 to 31 December 2009.

8. OTHER INCOME

	Year ended 31.12.2010 HK$'000	Period from 1.4.2009 to 31.12.2009 HK$'000
Bank interest income	339	1
Net sales of posters and audio-visual products	–	412
Coupon interest income from convertible notes designated at financial assets at FVTPL	1,048	145
Fair value gain of convertible notes designated at financial assets at fair value through profit or loss	9,342	1,258
Fair value gain/(loss) of held-for-trading investments	658	(1,735)
Net foreign exchange gains	1,641	–
Government grants	2,657	–
Others	1,559	28
	17,244	109

9. OTHER OPERATING EXPENSES

	Year ended 31.12.2010 HK$'000	Period from 1.4.2009 to 31.12.2009 HK$'000
Acquisition – related costs	8,152	–
Expenses related to the resumption of listing in the Main Board of the Stock Exchange:		
– Liquidation fee	–	4,387
– Listing fee	–	3,605
– Financial advisor fee	–	2,677
– Legal fee	–	2,541
Impairment loss on property, plant and equipment	–	259
Impairment loss on other receivables	204	49
Loss on disposal of property, plant and equipment	14	–
Others	98	73
	8,468	13,591

10. FINANCE COSTS

	Year ended 31.12.2010 HK$'000	Period from 1.4.2009 to 31.12.2009 HK$'000
Interest on borrowings wholly repayable within five years		
– bank borrowings	–	713
– securities margin facilities	2,144	1,083
– convertible notes	12,883	82
– bank overdraft	374	–
	15,401	1,878

11. INCOME TAX EXPENSE

	Year ended 31.12.2010 HK$'000	Period from 1.4.2009 to 31.12.2009 HK$'000
Current tax – Hong Kong Profits Tax		
Provision for the year/period	–	69
Under-provision in prior years	9	–
	9	69
Current tax – Overseas		
Provision for the year/period	6,514	4,127
Over-provision in prior years	(1,177)	–
	5,337	4,127
Deferred tax (note 35)	2,051	–
	7,397	4,196

Hong Kong Profits Tax has been provided at a rate of 16.5% (2009: 16.5%) on the estimated assessable profit for the year ended 31 December 2010.

Pursuant to Guoshuihan [2010] 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 2009 to 31 December 2010.

For other PRC subsidiaries of the Group, the provision for PRC enterprise income tax is based on a statutory rate of 25% (2009: 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.

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.

11. INCOME TAX EXPENSE (Continued)

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

	Year ended 31.12.2010 HK$'000	Period from 1.4.2009 to 31.12.2009 HK$'000
Profit/(loss) before taxation (excluding share of profits of associates and share of profits of a jointly controlled entity)	**93,987**	(28,943)
Tax at the applicable income tax rate of 16.5% (2009: 16.5%)	**15,508**	(4,776)
Tax effect of expenses not deductible for tax purposes	**161,075**	5,776
Tax effect of income not taxable for tax purposes	**(157,266)**	(2,064)
Tax effect on utilisation of tax losses not previously recognised	**(1,276)**	–
Tax effect of tax holidays/tax concession	**(15,741)**	–
Under-provision in prior years	**9**	–
Over-provision in prior years	**(1,177)**	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**2,601**	577
Tax effect of temporary differences not recognised	**1,945**	4,315
Tax effect of current year tax loss not recognised	**1,687**	368
Others	**32**	–
Income tax expense	**7,397**	4,196

12. PROFIT/(LOSS) FOR THE YEAR/PERIOD FROM CONTINUING OPERATIONS

The Group's profit/(loss) for the year/period from continuing operations is stated after charging the following:

	Year ended 31.12.2010 HK$'000	Period from 1.4.2009 to 31.12.2009 HK$'000
Acquisition-related costs	**8,152**	–
Amortisation of lease contracts (included in administrative expenses)	**1,292**	–
Auditor's remuneration		
– Current	**1,557**	840
– Under-provision in prior year	**1,103**	–
	2,660	840
Cost of service provided	**115,251**	44,163
Cost of inventories sold	**8,009**	2,586
Impairment loss on inventories (included in cost of sales)	**–**	1,000
Directors' emoluments (note 14)	**6,946**	1,796
Depreciation on property, plant and equipment	**13,199**	1,443
Operating lease charges of land and buildings		
– minimum lease payments	**33,394**	6,881
– contingent rent	**–**	1,155
	33,394	8,036
Staff costs excluding directors' emoluments		
– salaries, bonus and allowances	**28,304**	4,649
– equity-settled share-based payments	**3,455**	–
– retirement benefits scheme contributions	**4,541**	218
	36,300	4,867
Equity-settled share-based payments paid to consultants	**22,070**	–

13. DISCONTINUED OPERATION

On 7 April 2009, the Tokyo District Court of Japan had made a judgment against Planet Hollywood (Japan) K.K. ("PHJ"), a wholly owned subsidiary of the Group which carried out all of the Group's theme restaurant operation, 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. On 17 July 2009, Star East (Japan) Limited, the immediate holding company of PHJ, was placed under liquidation. Since then, the Group had lost control over Star East (Japan) Limited and PHJ and both companies were deconsolidated from the Group's consolidated financial statements.

The gain for the period from the discontinued operation is analysed as follows:

	Period from 1.4.2009 to 31.12.2009 HK$'000
Loss of theme restaurant operation for the period	–
Gain on deconsolidation of theme restaurant operation	61,132
	61,132

There is no income or expense incurred by the discontinued operation which has been included in the consolidated statement of comprehensive income and no cash flow from the discontinued operation for the period from 1 April 2009 to 17 July 2009.

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments of each director were as follows:

	Director fees HK$'000	Salaries and allowances HK$'000	Retirement benefit scheme contributions HK$'000	Share-based payments HK$'000	Total HK$'000
Name of director					
Executive directors					
Mr. HU Yidong	130	–	–	784	914
Mr. LI Kai (note a)	184	–	–	261	445
Mr. QIN Hong	740	–	–	1,726	2,466
Mr. SUNG Chit Nim (note b)	10	–	–	–	10
Mr. WONG Kui Shing, Danny (note c)	200	–	5	–	205
Ms. XIAO Ping (note d)	1,500	–	–	1,046	2,546
Independent non-executive directors:					
Mr. CHAN Sek Nin, Jackey	120	–	–	–	120
Mr. HE Peigang	120	–	–	–	120
Mr. PANG Hong	120	–	–	–	120
Total for the year ended 31 December 2010	3,124	–	5	3,817	6,946

	Director fees HK$'000	Salaries and allowances HK$'000	Retirement benefit scheme contributions HK$'000	Share-based payments HK$'000	Total HK$'000
Name of director					
Executive directors:					
Mr. CHEUK Kwong Hau, Thomas (note e)	–	223	5	–	228
Mr. HU Yidong	68	–	–	–	68
Mr. LI Kai (note a)	–	–	–	–	–
Mr. LIU Xianbo (note f)	50	–	–	–	50
Mr. QIN Hong	24	–	–	–	24
Mr. WONG Kui Shing, Danny (note c)	–	500	5	–	505
Ms. XIAO Ping (note d)	156	–	–	–	156
Independent non-executive directors:					
Mr. PANG Hong	56	–	–	–	56
Mr. HE Peigang	8	–	–	–	8
Mr. CHAN Sek Nin, Jackey	56	–	–	–	56
Mr. HUNG Hing Man (note g)	48	–	–	–	48
Mr. LAM Tak Shing, Harry (note h)	597	–	–	–	597
Total for the period ended 31 December 2009	1,063	723	10	–	1,796

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

Notes:

(a) resigned on 19 May 2009 and re-appointed on 26 March 2010

(b) appointed on 17 December 2010

(c) resigned on 26 March 2010

(d) resigned on 17 December 2010

(e) resigned on 24 November 2009

(f) resigned on 2 July 2009

(g) resigned on 8 December 2009

(h) resigned on 29 May 2009

During the year, there was no arrangement under which a director waived or agreed to waive any emoluments during the year.

The five highest paid individuals in the Group during the year included two (2009: four) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining three (2009: one) individuals are set out below:

	Year ended 31.12.2010 HK$'000	Period from 1.4.2009 to 31.12.2009 HK$'000
Basic salaries and allowances	**1,655**	170
Retirement benefit scheme contributions	**30**	5
	1,685	175

The emoluments fell within the following band:

	Number of individuals	
	Year ended 31.12.2010	Period from 1.4.2009 to 31.12.2009
Nil to HK$1,000,000	**3**	1

During the year, no emoluments were paid by the Group to any of the directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

15. RETIREMENT BENEFIT SCHEME

The Company's subsidiaries in the PRC, in compliance with the applicable regulations of the PRC, participated in retirement benefits operated by the relevant local government authorities. The Group is required to make contributions on behalf of employees who are registered permanent residents in the PRC. The Group's contributions for the year ended 31 December 2010 were amounted to approximately HK$4,220,000 (2009: HK$165,000).

The Group's Hong Kong office implemented a Mandatory Provident Fund Scheme (the "MPF") in compliance with the applicable regulations in Hong Kong for its staff at the end of 2010. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme. The Group's contribution to the MPF for the year ended 31 December 2010 amounted to approximately HK$321,000 (2009: HK$53,000).

16. EARNINGS/(LOSS) PER SHARE

(a) The calculation of the basic and diluted earnings/(loss) per share is based on the following:

	Year ended 31.12.2010 HK$'000	Period from 1.4.2009 to 31.12.2009 HK$'000
Earnings		
Earnings for the year/period attributable to owners of the Company	**123,365**	24,002
Finance costs saving on conversion of convertible notes outstanding	**12,883**	82
Earnings for the purpose of calculating diluted earnings per share	**136,248**	24,084

	Year ended 31.12.2010	Period from 1.4.2009 to 31.12.2009
Issued ordinary shares at beginning of year/period	**2,518,775,028**	314,068,757
Effect of share issued for open offer	**–**	585,974,859
Effect of placing of new shares	**455,571,419**	59,695,890
Effect of consideration shares issued	**1,123,380,543**	524,587,671
Effect of conversion of convertible notes	**221,964,244**	7,824,310
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**4,319,691,234**	1,492,151,487
Effect of dilutive potential ordinary shares arising from convertible notes outstanding	**810,958,903**	8,189,781
Weighted average number of ordinary shares for the purpose of calculating diluted earnings/(loss) per share	**5,130,650,137**	1,500,341,268

16. EARNINGS/(LOSS) PER SHARE (Continued)

(a) (Continued)

The calculation of diluted loss per share for the period ended 31 December 2009 does not include share options as their assumed exercise would result in decrease in loss per share.

The diluted loss per share for the period ended 31 December 2009 is not presented as it resulted in a decrease in loss per share from continuing operations.

(b) From continuing operations in 2009

Basic earnings/(loss) per share

The calculation of basic loss per share from continuing operations attributable to owners of the Company is based on the loss for the period from 1 April 2009 to 31 December 2009 from continuing operations attributable to owners of the Company of approximately HK$37,130,000 and the denominator used is the same as that detailed above for basic earnings/(loss) per share.

Diluted earnings/(loss) per share

The diluted loss per share for the period ended 31 December 2009 is not presented as it resulted in a decrease in loss per share from continuing operations.

(c) From discontinued operations in 2009

Basic earnings per share for the discontinued operation is HK4.10 cents per share and diluted earnings per share for the discontinued operation is HK4.07 cents per share, based on the profit for the period from the discontinued operation of approximately HK$61,132,000 and the denominators detailed above for both basic and diluted earnings per share.

Diluted loss per share

The diluted loss per share for the period ended 31 December 2009 is not presented as it resulted in a decrease in loss per share from continuing operations.

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Operation equipment HK$'000	Electronic equipment HK$'000	Broadcasting equipment HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost								
At 1 April 2009	43,129	–	–	–	14,842	443	–	58,414
Additions	168	–	–	–	1,309	791	–	2,268
Acquisition of subsidiaries	23,847	–	–	–	11,937	170	–	35,954
Exchange differences	53	–	–	–	29	–	–	82
At 31 December 2009	67,197	–	–	–	28,117	1,404	–	96,718
Reclassification	(458)	2,265	249	11,082	(12,027)	(11)	(1,100)	–
Additions	20,372	378	945	10,796	547	1,343	–	34,381
Acquisition of subsidiaries (note 37)	59,653	10,051	300	22,921	214	444	2,176	95,759
Disposal	–	(47)	(1)	(3)	(7)	–	–	(58)
Written-off	(46,206)	–	–	–	(10,919)	–	(1,109)	(58,234)
Exchange differences	3,184	443	25	1,551	29	69	33	5,334
At 31 December 2010	103,742	13,090	1,518	46,347	5,954	3,249	–	173,900
Accumulated depreciation and impairment								
At 1 April 2009	43,129	–	–	–	14,842	443	–	58,414
Charged for the period	607	–	–	–	822	14	–	1,443
Impairment recognised during the period	–	–	–	–	259	–	–	259
Exchange differences	1	–	–	–	2	–	–	3
At 31 December 2009	43,737	–	–	–	15,925	457		60,119
Reclassification	68	(8)	30	2	(92)	–	–	–
Charged for the year	5,961	3,059	350	3,120	226	483	–	13,199
Disposal	–	(41)	–	–	(3)	–	–	(44)
Written-off	(43,129)	–	–	–	(10,919)	–	–	(54,048)
Exchange differences	360	135	9	293	91	11	–	899
At 31 December 2010	6,997	3,145	389	3,415	5,228	951	–	20,125
Carrying amount								
At 31 December 2010	96,745	9,945	1,129	42,932	726	2,298	–	153,775
At 31 December 2009	23,460	–	–	–	12,192	947	–	36,599

During the year, in order to have a better classification and consist with the classification of the property, plant and equipment for the newly acquired cinema business, the Group has made a reclassification of the property, plant and equipment.

During the year, the directors of the Company conducted a review of the Group's cinema equipment and determined that a number of those assets were impaired, due to physical damage. Accordingly, an impairment loss of HK$Nil (2009: HK$259,000) have been recognised in respect of furniture and equipment and electronic equipments, which are used in the Group's film exhibition segment.

18. GOODWILL

	HK$'000
Cost	
At 1 April 2009	–
Arising on acquisition of subsidiaries	21,343
At 31 December 2009 and 1 January 2010	21,343
Arising on acquisition of subsidiaries (note 37)	1,413,006
At 31 December 2010	1,434,349
Accumulated impairment losses	
At 1 April 2009, 31 December 2009 and 1 January 2010	–
Impairment loss recognised in the current year	–
At 31 December 2010	–
Carrying amount	
At 31 December 2010	1,434,349
At 31 December 2009	21,343

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units ("CGUs") that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated as follows:

	2010 **HK$'000**	2009 HK$'000
Film exhibition:		
Colour Asia Pacific Limited ("Colour Asia")	**15,431**	15,431
North Hollywood Limited ("North Hollywood")	**1,413,006**	–
Provision of entertainment arts education:		
Step Delight Limited ("Step Delight")	**5,912**	5,912
	1,434,349	21,343

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and budgeted gross margin and turnover during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. Budgeted gross margin and turnover are based on past practices and expectations on market development.

18. GOODWILL (Continued)

Film exhibition

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for the next five years with the residual period using the growth rate of 3% (2009: 3%). The rate used to discount the forecast cash flows from the subsidiaries of Colour Asia and North Hollywood is 15% (2009: 15%).

Provision of entertainment arts education

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors of the Company for the next five years with the residual period using the growth rate of 5%. The rate used to discount the forecast cash flows from the subsidiaries of Step Delight is 20%. The recoverable amount of the investment in Step Delight as at 31 December 2009 was determined using the discounted cash flow approach, based on the valuation performed by Greater China Appraisal Limited, an independent valuer to the Group. The calculation used cash flow projections based on the financial budgets approved by management covering five-year period, and discount rate of 20.09%.

19. INTANGIBLE ASSETS

	Trademarks (purchased) HK$'000 (Note a)	Lease contracts (purchased) HK$'000 (Note b)	Prepaid building lease rights (purchased) HK$'000 (Note c)	Investments in film production HK$'000 (Note d)	Total HK$'000
Cost					
Additions and at 31 December 2009 and 1 January 2010	–	–	–	7,000	7,000
Additions during the year	25,120	–	40,000	137,820	202,940
Return of investment	–	–	–	(12,545)	(12,545)
Acquisition of subsidiaries (note 37)	–	28,079	–	–	28,079
At 31 December 2010	25,120	28,079	40,000	132,275	225,474
Accumulated amortisation and impairment losses					
Amortisation for the year and at 31 December 2010	–	1,292	–	–	1,292
Carrying amount					
At 31 December 2010	25,120	26,787	40,000	132,275	224,182
At 31 December 2009	–	–	–	7,000	7,000

19. INTANGIBLE ASSETS (Continued)

(a) Trademark

The trademark, **Photon**VFX, was originally owned by Photon Group. The principle activities of Photon Group are entertainment related business in relation to the production, distribution and licensing of entertainment related contents for movies, television drama series, documentary and information or entertainment programs, and cinemas business. After the completion of sale and purchase agreement dated 12 July 2010, the Company indirectly owned the legal right in this trademark.

PhotonVFX, has a legal right life of 10 years commencing 28 October 2003 but is renewable every 10 years at minimal cost. The directors of the Company are of the opinion of the Group would renew the trademark continuously and has the ability to do so. Various studies including product life cycle studies, market, and brand extension opportunities have been performed by management of the Company, which supports that this trademark – **Photon**VFX has no foreseeable limit to the period over which the trademarked products are expected to generate net cash flows for the Company.

The Group has assessed the recoverable amount of the trademark acquired with indefinite life for the CGUs and determined that such trademark has not been impaired at 31 December 2010. Such trademark has been allocated to the business segment of "Film production and distribution".

The recoverable amount of the CGUs is determined from value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a period of five years. The rates used to discount the forecast cash flows are approximately 18%. The assumptions used are based on management's past experience of the specific market and reference to external sources of information.

(b) Lease contracts

The Group carried out reviews of the recoverable amount of the lease contract rights in 2010, having regard to the market conditions of the property market in the cities in which the Group's cinemas are located. These assets are used in the Group's film exhibition segment. The recoverable amount of the relevant assets has been determined on the basis of their value in use. The discount rate used in measuring value in use was 15%.

(c) Prepaid building lease rights

During the year, the Group purchased from an independent third party, 星美投資有限責任公司 (Xingmei Investment Co., Ltd.), the building lease contracts rights for the leasing of 25 sites in the PRC, intended for the operation of 25 cinemas. Details of the transaction are disclosed in the circular dated 13 September 2010. As at 31 December 2010, the legal title of only one lease contract out of the total 25 of lease contracts has been transferred to the Group, others are still in the name of the vendor.

The prepaid building lease rights are used in the film exhibition segment and are amortised on a straight-line basis over the remaining lease terms range from 10 to 20 years.

19. INTANGIBLE ASSETS (Continued)

(d) Investments in film production

Investments in film production represent funds advanced to licensed production houses for co-financing of the production of films, which are freely to be exploited by the production houses. The investments are governed by the relevant investment agreements entered into between the Group and the production houses whereby the Group is entitled to benefits generated from the distribution of the related films. The amounts will be recoverable by the Group from a pre-determined share of the sales proceeds of the respective co-financed films, resulting from the distribution to be confirmed by the relevant production houses.

20. INVESTMENTS IN ASSOCIATES

	2010 HK$'000	2009 HK$'000
Unlisted investments:		
Share of net assets	**8,813**	2,163
Goodwill	**–**	2,010
Net assets	**8,813**	4,173
Amount due from Applause	**–**	14,016
	8,813	18,189
Less: accumulated impairment loss	**–**	(18,189)
	8,813	–

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

During the period ended 31 December 2009, the Group carried out a review of the recoverable amount of its interests in associates. The review led to the recognition of an impairment loss of HK$18,189,000, which has been recognised in the consolidated income statement. The directors of the Company considered that the recoverable amount of these investments is less than their carrying amounts by reference to the latest available financial information.

20. INVESTMENTS IN ASSOCIATES (Continued)

Details of the Group's associates at 31 December 2010 are as follows:

Name	Place of incorporation/ registration	Issued and paid up capital	Percentage of equity interest held by the Group/profit sharing 2010	2009	Principal activities
北京世界城星美國際影城管理有限公司 Beijing Shijiecheng Stellar Cineplex Mgt Co., Ltd ("Beijing Shijiecheng Stellar") (Note a)	PRC	Registered capital of RMB6,000,000	**49%/ 100%**	–	Operation of a cinema
蘭州星美影城管理有限公司 Lanzhou Stellar Cineplex Limited ("Lanzhou Stellar") (Note a)	PRC	Registered capital of RMB6,000,000	**49%/ 100%**	–	Operation of a cinema
廣州華影星美影城管理有限公司 Guangzhou Huaying Stellar Cineplex Limited ("Guangzhou Huaying Stellar ")	PRC	Registered capital of RMB1,000,000	**46.55%/ 46.55%**	–	Operation of a cinema
星美影院發展 (Note b)	PRC	Registered capital of RMB100,000,000	**–**	25%/ 25%	Movie distribution and exhibition
Applause (Note c)	BVI	20 ordinary shares of US$1 each	**–**	40%/ 40%	Movie production and distribution

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

Notes:

(a) During the year, the Group has made profit entitlement agreements and supplementary agreements with the other shareholders of Beijing Shijiecheng Stellar and Lanzhou Stellar in which the shareholders agreed to let the Group to manage the operation of the cinemas and in return the shareholders were willing to waive their shares of the profit after tax in Beijing Shijiecheng Stellar and Lanzhou Stellar. The Group is entitled to 100% of the profit after tax in these two associates for the period from 1 January 2010 to 31 December 2010 and 90% of the profit after tax from 1 January 2011 onwards. For the year ended 31 December 2010, the Group has accounted for 100% of the profits after tax of Beijing Shijiecheng Stellar and Lanzhou Stellar in the consolidated income statement since the date of acquisition of these two associates.

20. INVESTMENTS IN ASSOCIATES (Continued)

Note: (Continued)

(b) 星美影院發展 was disposed to an independent third party on 21 December 2010.

(c) Applause and its subsidiaries were disposed to an independent third party on 18 August 2010 at a consideration of HK$4,000,000 and a gain on disposal of approximately HK$4,000,000 was recognised during the year ended 31 December 2010.

Summarised financial information in respect of the Group's associates is set out below:

	2010 HK$'000
At 31 December	
Total assets	90,358
Total liabilities	(69,998)
Net assets	20,360
Group's share of associates' net assets	8,813

	Year ended 31.12.2010 HK$'000
Total revenue	42,566
Total profit for the year	1,293
Group's share of associates' profit for the year	1,477

Note:

Since no financial information obtained from 星美影院發展 and Applause, no disclosure for the Group's share of associates' net assets as at 31 December 2009 and for the share of results for the period from 1 April 2009 to 31 December 2009 are available.

21. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	2010 HK$'000	2009 HK$'000
Unlisted investments:		
Share of net assets	**44,867**	–
Amounts due from jointly controlled entities	**–**	26,685
	44,867	26,685
Less: accumulated impairment loss	**–**	(9,685)
	44,867	17,000

The amounts due from jointly controlled entities were unsecured, interest-free and have no fixed repayment terms of repayment. For the period ended 31 December 2009, in the opinion of the directors of the Company, the amount due from jointly controlled entities would not be repayable within twelve months of the reporting period and were accordingly classified as non-current.

Details of the jointly controlled entities at 31 December 2010 are as follows:

Name	Place of incorporation/ registration	Issued and paid up capital	Percentage of equity interest held by the Group/profit sharing 2010	2009	Principal activities
瀋陽星美影城管理有限公司 Shenyang Stellar Cineplex Management Co., Ltd ("Shenyang Stellar") (Note a)	PRC	Registered capital of RMB6,000,000	**49%/ 100%**	–	Operation of a cinema
Canaria Holding Limited ("Canaria") (Note b)	BVI	2 ordinary shares of US$1 each	**–**	50%/ 50%	Investment holding
Earn Elite Development Limited ("Earn Elite") (Note b)	Hong Kong	2 ordinary shares of HK$1 each	**–**	50%/ 50%	Property investment

21. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (Continued)

Note:

(a) During the year, the Group made a profit entitlement agreement and a supplementary agreements with the other venturer of Shenyang Stellar ("other venturer") in which the other venturer agreed to let the Group to manage the operation of Shenyang Stellar and in return the other venture was willing to waive its share of the profit after tax in Shenyang Stellar. The Group is entitled to 100% of the profit after tax in Shenyang Stellar for the period from 1 January 2010 to 31 December 2010 and 90% of the profit after tax from 1 January 2011 onwards. For the year ended 31 December 2010, the Group has accounted for 100% of the profits after tax of Shenyang Stellar in the consolidated income statement since the date of acquisition of Shenyang Stellar.

(b) On 11 February 2010, the jointly controlled entity, Canaria and its subsidiary, Earn Elite were disposed to two independent third parties and a gain on disposal of approximately HK$1,651,000 was recognised during the year ended 31 December 2010.

The following amounts are the Group's share of the jointly controlled entities that are accounted for by the equity method of accounting.

	2010	2009
	HK$'000	HK$'000
At 31 December		
Current assets	**20,446**	3,416
Non-current assets	**7,476**	46,825
Current liabilities	**(4,159)**	(186)
Non-current liabilities	**(199)**	(123,254)
Net assets/(liabilities)	**23,564**	(73,199)
Additional share of profit in according to the profit entitlement agreement	**21,303**	–
	44,867	(73,199)

	Year ended 31.12.2010	Period from 1.4.2009 to 31.12.2009
	HK$'000	HK$'000
Turnover	**42,042**	3,580
Expenses	**(5,487)**	(3,760)

22. DEPOSITS PAID FOR INVESTMENTS

	2010 HK$'000	2009 HK$'000
Deposit paid for investment in a subsidiary	10,516	–
Deposits paid for investment in jointly controlled entities (notes (a) and (b))	72,946	–
	83,462	–

Notes:

(a) Pursuant to a cooperation agreement signed on 10 August 2010 and a supplementary agreement signed on 13 October 2010 between Able Charm Limited ("Able Charm"), a wholly owned subsidiary of the Group, and an independent third party, Babyboss International Limited ("BIL"), to acquire 50% equity interests in 北京麗水寶貝教育咨詢有限公司 ("北京麗水寶貝"), a limited company established in the PRC, which is engaged in the operation of "Baby Boss" in the PRC. The total consideration was RMB42,750,000 (equivalent to approximately HK$50.6 million). Upon the consideration was fully paid, each of Able Charm and BIL agree to inject RMB20,000,000 to 北京麗水寶貝 for its operation. As at 31 December 2010, the total deposit paid for the investment amounted to approximately HK$49.6 million.

(b) Pursuant to a letter of intent signed on 27 October 2010 between Able Charm and BIL, both parties agreed to set up a business of "Baby Boss" in Shanghai, the PRC. As at 31 December 2010, the Group has paid a deposit of RMB20,000,000 (equivalent to approximately HK$23.3 million) to BIL. The project is still in the planning stage.

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2010 HK$'000	2009 HK$'000
Unlisted equity security, at cost	23,020	–

During the year, the Group invested approximately HK$23 million in a company incorporated in Hong Kong and owned 20% equity interests in that company. Due to certain contractual arrangements with the other shareholders of that company, the Group is unable to exercise significant influence over that company and the investment is classified as available-for-sale financial assets.

Such unlisted equity security was carried at cost as they do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

24. PREPAYMENT FOR CONSTRUCTION OF CINEMAS

During the year, the Group has made agreements with certain construction companies for the supervision, administration and quality control of the construction projects of 25 cinemas in the PRC. The total estimated cost for the construction was amounted to approximately RMB350 million. As at 31 December 2010, the Group has prepaid approximately HK$115,203,000 to these construction companies for the planning and design of the construction projects.

25. INVENTORIES

	2010 HK$'000	2009 HK$'000
Food and beverage	1,141	178
Posters and audio-visual products	451	340
	1,592	518

26. TRADE AND OTHER RECEIVABLES

	2010 HK$'000	2009 HK$'000
Trade receivables	49,125	6,788
Rental and other deposits	4,241	3,010
Margin deposit placed with a financial institution (note a)	–	6,268
Amount due from non-controlling interests of subsidiaries (note b)	45,932	10,029
Prepayments and other receivables (note c)	162,267	25,390
	261,565	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 annum. The amount is secured and repayable on demand.

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

(c) Included in prepayments and other receivables are advances to independent third parties of approximately 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. As at 31 December 2009, other receivables of approximately HK$10,023,000 were guaranteed by a non-controlling interest of a subsidiary.

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:

	2010 HK$'000	2009 HK$'000
0 to 30 days	25,841	4,839
31 to 90 days	5,086	1,949
Over 91 days	18,198	–
	49,125	6,788

26. TRADE AND OTHER RECEIVABLES (Continued)

As at 31 December 2010, trade receivables of HK$18,198,000 (2009: HK$Nil) 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:

	2010	2009
	HK$'000	HK$'000
3 to 6 months	**18,198**	–

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

	2010	2009
	HK$'000	HK$'000
Hong Kong dollars	**121**	6,788
Renminbi ("RMB")	**49,004**	–
Total	**49,125**	6,788

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 trade and other receivables is as follow:

	2010	2009
	HK$'000	HK$'000
Balance at the beginning of the year	**49**	–
Impairment loss recognized	**204**	49
Balance at the end of the year	**253**	49

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

27. HELD-FOR-TRADING INVESTMENTS

	2010 HK$'000	2009 HK$'000
Equity securities, at fair value listed in Hong Kong	**13,270**	73,257

The investments included above represent investments in listed equity securities that offer the Group the opportunity for return through dividend income and fair value gains. They have no fixed maturity or coupon rate. They are classified as held-for-trading and recorded in current assets.

The fair values of listed securities are based on current quoted market bid prices available on the Stock Exchange.

At 31 December 2009, the Group's held-for-trading investments amounting to HK$60,884,000 were pledged to secure margin account facilities granted to the Group.

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

On 2 November 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") (Stock Code: 372), a company listed on the main board of the Hong Kong Stock Exchange. 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$0.5 per share. On 22 October 2010, ITC announced the conversion price of the convertible notes has been adjusted from HK$0.5 per share to HK$0.3 per share. Further details of the adjustment of conversion price are set out in the announcements of ITC dated 22 October 2010. 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 gain of approximately HK$9,342,000 (2009: HK$1,258,000) was recorded for the year ended 31 December 2010.

At 31 December 2010, the fair value of the convertible notes was valued by Savills Valuation and Professional Services Limited ("Savills"), an independent qualified professional valuer. Binomial (Cox, Ross, Rubinstein) option pricing model ("Binomial Model") is used for valuation for the conversion option component of the convertible notes designated at fair value through profit or loss. The fair value are estimated by considering the key assumptions as follows:

	31 December 2010
Share price of the Company	HK$0.37
Expected volatility	129%
Risk free rate	0.34%
Life of the options	0.84 year
Expected ordinary dividend yield	Nil
Effective interest rate	8%

29. DUE FROM/(TO) ASSOCIATES/A JOINTLY CONTROLLED ENTITY

The amounts due from/(to) associates/a jointly controlled entity are unsecured, interest-free and have no fixed repayment terms.

30. BANK AND CASH BALANCES

As at 31 December 2010, the bank and cash balances of the Group denominated in Renminbi ("RMB") amounted to HK$231,176,000 (2009: HK$5,435,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

31. TRADE AND OTHER PAYABLES

	2010 HK$'000	2009 HK$'000
Trade payables	35,975	18,181
Customers' deposits	32,312	16,010
PRC business and other tax payables	6,298	618
Payroll and welfare payables	1,743	847
Margin payable due to financial institutions (Note)	–	34,315
Amount due to a non-controlling interest of subsidiaries	23,554	–
Accrued charges and other payable	58,294	17,106
	158,176	87,077

Note: The margin payable due to financial institutions are secured and repayable on demand. The interest are range from 8% to 9.38% 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:

	2010 HK$'000	2009 HK$'000
Up to 30 days	13,133	7,917
31 to 60 days	5,685	6,459
Over 60 days	17,157	3,805
	35,975	18,181

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

	2010 HK$'000	2009 HK$'000
Hong Kong dollars	65	18,181
RMB	35,910	–
Total	35,975	18,181

32. DUE TO RELATED PARTIES

	2010 HK$'000	2009 HK$'000
Mr. QIN Hui (Note a)	**114**	13,877
SMIL (Note b)	**852**	1,051
	966	14,928

Note a: Mr. QIN Hui is the controlling shareholder of the Company.

Note b: As at 31 December 2009, SMIL is the ultimate holding company of the Company.

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

33. CONVERTIBLE NOTES

(a) 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 controlling shareholder of the Company. 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 the 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 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 shares.

The proceeds received from the issue of the Convertible Note has been split between the liability element and an equity component, as follows:

	2010 HK$'000
Nominal value of Convertible Note issued	**100,000**
Equity component	**(11,693)**
At issue date	**88,307**
Effective interest charge	**957**
Conversion of Convertible Notes	**(89,264)**
Carrying amount at 31 December 2010	**–**

33. CONVERTIBLE NOTES (Continued)

(b) The Company issued a 0.25% convertible notes ("Acquisition Convertible Note") with principal amount of HK$480,000,000 on 16 July 2010 to Mr. QIN Hui. The Acquisition Convertible Note is denominated in Hong Kong dollars and entitle the holder to convert them into ordinary shares of the Company at any business days after the date of issue of the Acquisition Convertible Notes up to and including the date which is 7 business days prior to the maturity date on 16 July 2012 at a conversion price of HK$0.295. If the Acquisition Convertible Note has not been converted, it will be redeemed at 100% of its principal amount on the maturity date. No early redemption is allowed. Interest of 0.25% will be paid semi-annually up until the settlement date.

The Acquisition Convertible Note contains 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 6.0%.

The proceeds received from the issue of the Acquisition Convertible Note has been split between the liability element and an equity component, as follows:

	2010 HK$'000
Fair value of Acquisition Convertible Note issued	753,200
Equity component	(323,900)
Liability component at date of issue	429,300
Interest charged	11,926
Interest paid	(556)
Liability component at 31 December 2010	440,670

The interest charged for the year is calculated by applying an effective interest rate of 6.0% to the liability component for about 6 months period since the convertible note was issued.

The directors estimate the fair value of the liability component of the convertible notes at 31 December 2010 to be approximately HK$441,000,000. This fair value has been calculated by discounting the future cash flows at the market rate.

34. PLEDGE OF ASSETS

At 31 December 2009, the Group's held-for-trading investments amounted to approximately HK$60,884,000 were pledged to secure margin account facilities granted to the Group.

35. DEFERRED TAX

(a) The following are the major deferred tax (liabilities) and assets recognised by the Group.

	Allowance of trade and other receivables HK$'000	Deferred income HK$'000	Expenses to be claimed on paid basis HK$'000	Lease contracts HK$'000	Others HK$'000	Total HK$'000
At 1 January 2010	–	–	–	–	–	–
Acquisition of subsidiaries (note 37)	2,624	565	534	(7,020)	841	(2,456)
(Charge)/credit to profit or loss for the year	(1,615)	–	(164)	323	(595)	(2,051)
Exchange differences	61	22	18	–	(21)	80
At 31 December 2010	**1,070**	**587**	**388**	**(6,697)**	**225**	**(4,427)**

(b) The following is the analysis of the deferred tax balance (after offset) for statement of financial position purposes:

	2010 HK$'000	2009 HK$'000
Deferred tax liabilities	(6,739)	–
Deferred tax assets	2,312	–
	(4,427)	–

(c) At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries, associates and jointly controlled entities for which deferred tax liabilities have not been recognised is approximately HK$9,607,000 (2009: HK$1,435,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

36. SHARE CAPITAL

	Number of Shares	Amount HK$'000
Authorised:		
Ordinary shares of HK$0.1 (2009: HK$0.1) each		
At 1 April 2009	1,000,000,000	100,000
Increase during the period	4,000,000,000	400,000
At 31 December 2009 and 1 January 2010	5,000,000,000	500,000
Increase during the year (Note a)	15,000,000,000	1,500,000
At 31 December 2010	20,000,000,000	2,000,000
Issued and fully paid:		
Ordinary shares of HK$0.1 (2009: HK$0.1) each		
At 1 April 2009	314,068,757	31,407
Issue of shares for open offer	942,206,271	94,221
Issue of shares for acquisition of subsidiaries	843,500,000	84,350
Issue of shares for placing	269,000,000	26,900
Issue of shares for conversion of convertible notes on 3 December 2009	15,000,000	1,500
Issue of shares for conversion of convertible notes on 11 December 2009	113,000,000	11,300
Issue of shares for conversion of convertible notes on 22 December 2009	22,000,000	2,200
At 31 December 2009 and at 1 January 2010	2,518,775,028	251,878
Issue of shares by placing on 2 May 2010 (Note b)	503,752,000	50,375
Issue of shares for conversion of convertible notes on 6 May 2010 (Note c)	338,983,050	33,898
Issue of shares for acquisition of subsidiaries (Note d)	2,440,677,966	244,068
Issue of shares by placing on 22 October 2010 (Note e)	672,300,000	67,230
At 31 December 2010	6,474,488,044	647,449

Notes:

(a) Pursuant to an ordinary resolution passed by the Company's shareholders at a general meeting held on 10 June 2010, the Company increased its share capital from HK$500,000,000 to HK$1,000,000,000 by the creation of additional 5,000,000,000 ordinary shares of HK$0.1 each.

Pursuant to an ordinary resolution passed by the Company's shareholders at a special general meeting held on 15 December 2010, the Company increased its share capital from HK$1,000,000,000 to HK$2,000,000,000 by the creation of additional 10,000,000,000 ordinary shares of HK$0.1 each.

36. SHARE CAPITAL (Continued)

Notes: (Continued)

(b) On 2 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$219,132,000. 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.

(c) On 6 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 33(a) sets out the details of the convertible notes.

(d) On 16 July 2010, the Group acquired the entire equity interests in GDL and SMIIC by the allotment and issuance of a total of 2,440,677,966 new shares of HK$0.1 each at the consideration price of HK$0.295 per share. Further details of the above transaction are set out in the announcement of the Company dated 15 July 2010 and notes 37 to the consolidated financial statements.

(e) On 20 October 2010, the Company entered into a placing and subscription agreement pursuant to which the Company could issue, a maximum of 672,300,000 new shares of HK$0.1 each at the subscription price of HK$0.48 per share. The gross proceeds from this subscription was approximately HK$322,704,000. The agreement was completed and the 672,300,000 new shares in the Company were duly issued and allotted on 22 October 2010. Further details of the above transactions are set out in the announcements of the Company dated 21 October 2010.

All the shares which were issued during the year rank pari passu with the 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.

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 2010, 32.13% (2009: 40.59%) of the shares were in public hands.

37. ACQUISITION

On 16 July 2010, the Group acquired the entire equity interests of GDL Nominee Limited ("GDL") and SMI International Cinemas Limited ("SMIIC") from Mr. QIN Hui, the Controlling Shareholder of the Group, at a consideration of HK$1,200 million. GDL is an investment holding company and its principal assets are the investments in the following companies which are all incorporated in the PRC:

Name of the companies	% of equity interest acquired
"Beijing Huilongguan Stellar"	49%#
"Tianjin Stellar'	49%#
重慶星美影院管理有限公司 (Chongqing Stellar Cinema Management Co., Ltd) ("Chongqing Stellar")	49%#
徐州星美影院管理有限公司 (Xuzhou Stellar Cineplex Management Co., Ltd) ("Xuzhou Stellar")	49%#
上海星美影院管理有限公司 (Shanghai Stellar Cineplex Management Co., Ltd) ("Shanghai Stellar")	75%
Shenyang Stellar	49%

Since GDL has the right to appoint the majority of the board of directors of each of these PRC companies, they will be consolidated as subsidiaries of the Group

SMIIC is also an investment holding company and its principal assets are the investments in the following companies which are all incorporated in the PRC:

Name of the companies	% of equity interest acquired
Guangzhou Huaying Stellar	46.55%
Beijing Shijiecheng Stellar	49%
Lanzhou Stellar	49%
上海星美樂莫影院管理有限公司 (Shanghai Lemo Stellar Cineplex Management Co., Ltd) ("Shanghai Lemo Stellar")	75%
成都潤運文化傳播有限公司 ("成都潤運")	95%
成都星美影業發展有限公司 (Chengdu Stellar Cineplex Limited)("Chengdu Stellar")	57%

All the above PRC incorporated companies, except 成都潤運 which is an investment holding company, are engaged in the operation of cinemas in the PRC.

37. ACQUISITION (Continued)

The consideration was satisfied by the issuing of convertible note in the amount of HK$480 million and 2,440,677,966 ordinary shares of the Company at HK$0.295 per share.

The fair value of the identifiable assets and liabilities of GDL and SMIIC acquired as at the date of acquisition is as follows:

	HK$'000
Net assets acquired:	
Deferred tax assets	4,564
Property, plant and equipment	95,759
Intangible assets-lease contracts	28,079
Interests in associates	7,324
Interests in a jointly controlled entity	10,185
Inventories	619
Trade receivables	15,673
Prepayments, deposits and other receivables	36,098
Bank and cash balances	16,749
Trade and other payables	(111,111)
Current tax liabilities	(2,336)
Deferred income	(2,198)
Deferred tax liabilities	(7,020)
	92,385
Goodwill	1,413,006
	1,505,391
Satisfied by:	
Convertible notes	753,200
2,440,677,966 ordinary shares of the Company	717,560
Total consideration transferred	1,470,760
Non-controlling interests in GDL and SMIIC	34,631
	1,505,391
Net cash inflow arising on acquisition:	
Cash consideration paid	–
Cash and cash equivalents acquired	16,749
	16,749

The fair value of the 2,440,677,966 ordinary shares of the Company issued as part of the consideration paid was determined by the valuation performed by the independent valuer, Savills. The fair value of the shares are determined by multiplying the listed share price on the Stock Exchange on the share issuance date with the discount rate to reflect the 3 years lock up period for the shares held by the major shareholder of the Company.

37. ACQUISITION (Continued)

The goodwill arising on the acquisition of GDL and SMIIC is attributable to the anticipated profitability of the Group's cinema operations in the PRC and the anticipated future operating synergies from the combination.

GDL and SMIIC, totally contributed approximately HK$166,286,000 and HK$141,609,000 to the Group's turnover and profit for the year respectively for the period between the date of acquisition and the end of the reporting period.

If the acquisition had been completed on 1 January 2010, the Group's turnover for the year would have been approximately HK$238,700,000, and profit for the year would have been approximately HK$154,631,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of the turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2010, nor is intended to be a projection of future results.

38. DISPOSAL OF SUBSIDIARIES

(a) On 26 May 2010, On-Site Investments Limited, a wholly-owned subsidiary of the Group, entered into a sale and purchase agreement with Mr. 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:

	HK$'000
Net liabilities disposed of:	
Other receivables	3
Trade and other payables	(210)
	(207)
Gain on disposal of 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

38. DISPOSAL OF SUBSIDIARIES (Continued)

(a) (Continued)

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

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

(b) On 21 December 2010, the Company entered into a sale and purchase agreement with All Smooth Holdings Limited, an independent third party of the Group, to dispose of the entire equity interests in Star East (B.V.I.) Limited, Value Focus Limited, Joyful Growth Limited, Maximum Choice Limited, Star East Finance Group Limited, Star East Corporation Resources Limited and Silver Epoch Limited (the "Disposed Group") at a consideration of HK$1. The Disposed Group is inactive during the year.

Net assets at the date of disposal were as follows:

	HK$'000
Prepayments, deposits and other receivables	674
Bank and cash balances	3
Trade payables	(1,683)
Accruals and other payables	(12,772)
Net liabilities disposed of	(13,778)
Gain on disposal of subsidiaries	13,779
Total consideration – satisfied by cash	1
Net cash outflow arising on disposal:	
Cash consideration received	1
Cash and cash equivalents disposed of	(3)
	(2)

39. SHARE-BASED PAYMENT

Equity-settled share option scheme

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 year ended 31 December 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

Options granted to consultants were incentives for helping the Group expand its business network, acquired and explore new business projects and opportunities. The fair value of such benefit could not be estimated reliably and as a result, their fair values are measured by reference to the fair value of share option granted.

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 year ended 31 December 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

39. **SHARE-BASED PAYMENT(Continued)**

Equity-settled share option scheme (Continued)

Date of grant (Lot A)	11 June 2010
Dividend yield (%)	Nil
Expected volatility (%)	46.519
Risk-free interest rate (%)	0.145
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 (%)	0.145
Expected life (years)	1
Weighted average share price	0.504

40. **MAJOR NON-CASH TRANSACTIONS**

During the year ended 31 December 2010, the Company acquired the entire equity interests in GDL and SMIIC by the allotment and issuance of a total of 2,440,677,966 new shares at an issue price of HK$0.1 per share. The fair value of the ordinary shares of the Company is approximately HK$0.294 per share.

41. **LEASE COMMITMENTS**

At 31 December 2010, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2010 HK$'000	2009 HK$'000
Within one year	**43,400**	23,714
In the second to fifth years inclusive	**144,889**	92,941
After five years	**202,583**	193,717
	390,872	310,372

Operating lease payments represent rentals payable by the Group for its offices, staff quarter and warehouse in Hong Kong and the office, a residential club house and certain cinemas premises in the PRC.

The lease in Hong Kong are negotiated for an average term of 2 years while the leases in the PRC are negotiated for an average term of 15 to 20 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 rental.

42. OTHER COMMITMENTS

At the end of reporting period, the Group had the following commitments:

		2010 HK$'000	2009 HK$'000
(a)	Amount contracted for but not provided in the consolidated financial statements in respect of:		
	Investments in film production	**50,112**	1,575
	Consultancy fee paid	**9,867**	–
	Investment in jointly controlled entities	**24,600**	–
(b)	Capital expenditure authorised but not contracted for in respect of:		
	Construction for cinemas premises	**300,492**	–

43. CONTINGENT LIABILITIES

As at 31 December 2010, the Group and the Company did not have any significant contingent liabilities.

As at 31 December 2009, the directors of the Company are of the opinion that the estimated contingent liabilities arising from the below litigations cannot be reasonably ascertained.

(a) On 8 November 2007, Tilpifa Company Limited (an independent third parties) 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.

As at 31 December 2009, the Group, was 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 Group.

44. RELATED PARTY TRANSACTIONS

(a) In addition to those related party transactions and balances disclosed elsewhere in the financial statements, the Group did not have any transactions with its related parties during the year.

(b) The Company granted 53,000,000 share options to the existing directors during the year which are exercisable from 11 June 2010 to 10 June 2013 at an exercise price of HK$0.51 each.

(c) During the year, the key management personnel compensation paid by the Group was disclosed in note 14 to the financial statements.

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2010 HK$'000	2009 HK$'000
Non-current assets			
Investments in subsidiaries	46	**280,847**	76,821
Available-for-sale financial assets		**23,020**	–
		303,867	76,821
Current assets			
Prepayments, deposits and other receivables		**3,703**	7,060
Due from subsidiaries	46	**1,766,273**	80,945
Bank and cash balances		**205,952**	54,436
		1,975,928	142,441
Current liabilities			
Trade and other payables		**2,560**	2,073
Due to related parties		**966**	852
Due to subsidiaries	46	**1,168**	21,474
		4,694	24,399
Net current assets		**1,971,234**	118,042
Total assets less current liabilities		**2,275,101**	194,863
Non-current liabilities			
Convertible notes		**440,670**	–
NET ASSETS		**1,834,431**	194,863
Capital and reserves			
Share capital	36	**647,449**	251,878
Reserves	47	**1,186,982**	(57,015)
TOTAL EQUITY		**1,834,431**	194,863

46. INVESTMENTS IN SUBSIDIARIES

	Company	
	2010 HK$'000	2009 HK$'000
Unlisted investments, at cost	**280,847**	76,821

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

46. INVESTMENTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries as at 31 December 2010 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued and paid up/ registered capital	Percentage of equity interest held by the Company Directly	Percentage of equity interest held by the Company Indirectly	Percentage of profit sharing	Principal activities
Able Charm Limited	HK	10,000,000 ordinary share of HK$1 each	100%	–	100%	Investment holding
Admiral Team Limited	BVI	1 ordinary share of US$1 each	–	100%	100%	Investment holding
*Beijing Huilongguan Stellar (note)	PRC	Registered capital of RMB6,000,000	–	# 49%	100%	Operation of a cinema
*Beijing Mingxiang International Cinema Mgt Co. Ltd ("Beijing Mingxiang ") (note)	PRC	Registered capital of RMB7,000,000	–	72.86%	100%	Operation of a cinema
*Beijing Wangjing Stellar International Cinema Mgt Co. Ltd ("Beijing Wangjing ") (note)	PRC	Registered capital of RMB7,500,000	–	60%	100%	Operation of a cinema
Bravissimi Films (International) Limited	BVI	1 ordinary share of US$1 each	100%	–	100%	Investment in production of film
Campbell Hall Limited	BVI	1 ordinary share of US$1 each	–	100%	100%	Investment holding
Chengdu Stellar	PRC	Registered capital of RBM10,000,000		57%	57%	Provision of cinema
*Chongqing Stellar Cinema Management Co., Ltd (note)	PRC	Registered capital of RMB6,000,000	–	# 49%	100%	Operation of a cinema
Color Asia Pacific Limited	HK	1 ordinary share of HK$1 each	100%	–	100%	Investment holding
GDL Nominee Limited	HK	2 ordinary shares of HK$1 each	–	100%	100%	Investment holding
LS Education Centre Company Limited	HK	100 ordinary shares of HK$1 each	–	51%	51%	Provision of entertainment arts education and training services
Market Dynamics (Hong Kong) Limited	HK	10,000 ordinary shares of HK$1 each	100%	–	100%	Provision of advertising and public relation services
North Hollywood Limited	BVI	1 ordinary share of US$1 each	100%	–	100%	Investment holding
*Shanghai Lemo Stellar (note)	PRC	Registered capital of RMB6,000,000	–	75%	100%	Operation of a cinema
*Shanghai Stellar (note)	PRC	Registered capital of RMB12,000,000	–	75%	100%	Operation of a cinema
SMI International Cinemas Limited	HK	10,000 ordinary shares of HK$1 each	–	100%	100%	Investment holding

46. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ establishment	Issued and paid up/ registered capital	Percentage of equity interest held by the Company Directly	Indirectly	Percentage of profit sharing	Principal activities
SMI Investment (HK) Ltd.	HK	1 ordinary share of HK$1 each	100%	–	100%	Investment in securities
SMI Management (Beijing) Ltd.	HK	1 ordinary share of HK$1 each	100%	–	100%	Provision of administrative services
SMI Management (HK) Ltd.	HK	1 ordinary share of HK$1 each	100%	–	100%	Provision of administrative services
SMI Photon (HK) Limited (Formerly known as Dragon Leader International Limited)	HK	1 ordinary share of HK$1 each	–	100%	100%	Inactive
SMI Photon Pty Limited	Australia	100 ordinary shares of AUD55,000 each	–	80%	80%	Provision of visual effect and post-production of film making
Star East Services Limited	HK	2 ordinary shares of HK$1 each	–	100%	100%	Nominees of company secretary of group companies
*Tianjin Stellar (note)	PRC	Registered capital of RMB6,000,000	–	# 49%	100%	Operation of a cinema
*Xuzhou Stellar (note)	PRC	Registered capital of RMB6,000,000	–	# 49%	100%	Operation of a cinema
北京星美滙餐飲管理有限公司	PRC	Registered capital of RMB8,800,000	–	100%	100%	Operation of café and sale of food and beverage in cinema
*成都潤運	PRC	Registered capital of RMB3,000,000	–	95%	95%	Investment holding

\# Although the Group owns less than 50% of the equity interest in these companies, they are deemed to be subsidiaries of the Company as the Group is able to control the composition of the board of directors.

* These subsidiaries are sino-foreign equity joint venture established in the PRC.

Note: During the year, the Group has made profit entitlement agreements and supplementary agreements with most of the non-controlling interests of its subsidiaries in which the non-controlling interests agreed to waive their share of the profit after tax for the year ended 31 December 2010 in the corresponding subsidiaries. Therefore, the Group is entitled to 100% of the profit after tax for most of the subsidiaries for the year ended 31 December 2010. Pursuant to the profit entitlement agreements, the Group is entitled to 90% or 95% of the respective profit after tax from 1 January 2011 onwards of the relevant subsidiaries except for Beijing Mingxiang and Beijing Wangjiang. In addition, the non-controlling interests confirmed that they would indemnify the Group for all expenses incurred for the distribution of profits from them under the profit entitlement agreements.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets or liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

47. RESERVES

(a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of comprehensive income and consolidated statement of changes in equity.

(b) Company

	Note	Share premium HK$'000	Other reserve HK$'000	Contributed surplus HK$'000	Conversion notes reserve HK$'000	Share-based payment reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2009		44,150	–	36,003	–	–	(111,094)	(30,941)
Loss for the period		–	–	–	–	–	(54,796)	(54,796)
Share issued		44,385	–	–	–	–	–	44,385
Acquisition of subsidiaries		–	(36,615)	–	–	–	–	(36,615)
Transaction cost attributable to issue of shares		(3,085)	–	–	–	–	–	(3,085)
Recognition of equity component of convertible notes		–	–	–	4,239	–	–	4,239
Conversion of convertible notes		24,037	–	–	(4,239)	–	–	19,798
At 31 December 2009		109,487	(36,615)	36,003	–	–	(165,890)	(57,015)
At 1 January 2010		109,487	(36,615)	36,003	–	–	(165,890)	(57,015)
Loss for the year		–	–	–	–	–	(56,390)	(56,390)
Issue of shares on placement		424,231	–	–	–	–	–	424,231
Acquisition of subsidiaries (note 37)		473,492	–	–	–	–	–	473,492
Transaction cost attributable to issue of shares		(17,637)	–	–	–	–	–	(17,637)
Share-based payments		–	–	–	–	29,342	–	29,342
Recognition of equity component of convertible notes (note 33(a) and (b))		–	–	–	335,593	–	–	335,593
Conversion of convertible notes (note 33(a))		67,059	–	–	(11,693)	–	–	55,366
At 31 December 2010		1,056,632	(36,615)	36,003	323,900	29,342	(222,280)	1,186,982

(c) Nature and purpose of reserves

(i) Share premium account

The application of the share premium account is governed by Sections 40 of the Companies Act 1981 of Bermuda.

(ii) Other reserve

The other reserve represents 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 and the issued and fully paid up amount of such ordinary shares.

(iii) Contributed surplus

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 dividend in prior years.

Under the Companies Act of Bermuda, 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.

48. EVENTS AFTER THE REPORTING PERIOD

(a) On 21 December 2010, Resources International Investment Limited ("RIIL"), a wholly-owned subsidiary of the Company, entered into 2 Profit Entitlement Agreements with:

(i) 深圳市潤運科技發展有限公司 (Shenzhen Runyun Technology Development Co., Ltd*) ("Shenzhen Runyun") and two subsidiaries of the Company, Beijing Wangjing and Beijing Mingxiang, in relation to the distribution of profit of Beijing Mingxiang for a consideration of RMB14.27 million. Upon completion, the Group would be entitled to 90% of the economic interest in Beijing Mingxiang; and

(ii) Shenzhen Runyun, 星美(北京)影業有限公司 (Stellar (Beijing) Movie Co., Ltd.*) and Beijing Wangjing in relation to the distribution of profit in relation to Beijing Wangjing for a consideration of RMB57.62 million. Upon completion, the Group would be entitled to 90% of the economic interests in Beijing Wangjing.

Details of the transaction are disclosed in the Circular dated 18 January 2011.

As the financial information after the end of reporting period is not yet available, the Group is unable to quantify the possible financial effect of this acquisition to the Group.

(b) Pursuant to a cooperative and shares transfer agreement and a supplementary agreement signed on 14 October 2010, the Group agreed to acquire 60% of the equity interests in a limited company established in the PRC, which is engaged in the agency services for artists in the PRC. The total consideration was RMB11.8 million (equivalent to approximately HK$14.0 million). As at 31 December 2010, a deposit of approximately HK$9.3 million was paid.

As the transaction is not yet completed, the Group is unable to quantify the possible financial effect of this acquisition to the Group.

49. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation. The changes included the reclassification of certain income or expenses out of the profit/(loss) from operation and the reclassification of investments in film production from current assets to non-current assets. The new classification of the accounting items was considered to provide a more appropriate presentation of the state of affairs of the Group.

50. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 28 March 2011.

* *For identification purpose only*

Financial Summary

Results	1.4.2006- 31.3.2007 HK$'000	1.4.2007- 31.3.2008 HK$'000	1.4.2008- 31.3.2009 HK$'000	1.4.2009- 31.12.2009 HK$'000	**1.1.2010- 31.12.2010 HK$'000**
Revenue	38,797	29,675	35,551	72,029	**356,637**
(Loss)/Profit before tax	(24,965)	(90,442)	(28,231)	32,189	**130,146**
Taxation	(15)	(13)	–	(4,196)	**(7,397)**
(Loss)/Profit before non-controlling interests	(24,980)	(90,455)	(28,231)	27,993	**122,749**
Non-controlling interests	–	–	–	(3,991)	**616**
Net (loss)/profit for the year/period	(24,980)	(90,455)	(28,231)	24,002	**123,365**

Assets and liabilities	31.3.2007 HK$'000	31.3.2008 HK$'000	31.3.2009 HK$'000	31.12.2009 HK$'000	**31.12.2010 HK$'000**
Total assets	131,002	71,380	62,117	308,222	**2,681,235**
Total liabilities	(94,934)	(126,594)	(146,287)	(108,679)	**(621,480)**
Total equity	36,068	(55,214)	(84,170)	199,543	**2,059,755**

Blockbusters
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