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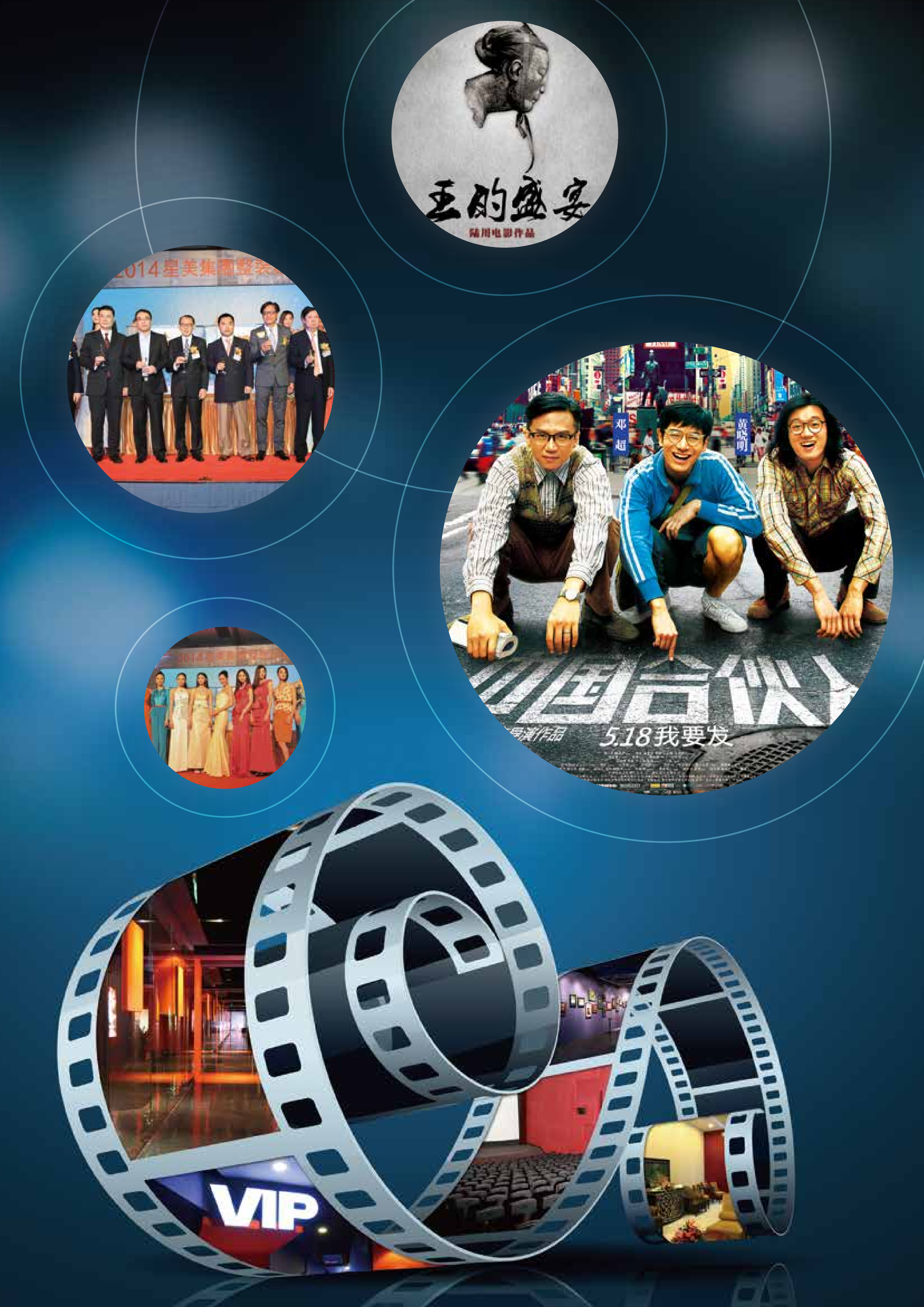
SMI CORPORATION LIMITED
星美國際集團有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 198)

2013 Annual Report

* For identification purposes only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Corporate Information

BOARD OF DIRECTORS
Executive Directors
Mr. CHENG Chi Chung *(Chief Executive Officer)*
Mr. WONG Kui Shing, Danny
Mr. LEE Chee Chuang, Roger (appointed on 3 May 2013)
Mr. YANG Rongbing (appointed on 3 May 2013)

Independent Non-Executive Directors
Mr. HE Peigang
Mr. PANG Hong
Mr. LI Fusheng (appointed on 10 October 2013)

Audit Committee
Mr. HE Peigang *(Chairman)*
Mr. PANG Hong
Mr. LI Fusheng

Remuneration Committee
Mr. HE Peigang *(Chairman)*
Mr. PANG Hong
Mr. LI Fusheng

Nomination Committee
Mr. HE Peigang *(Chairman)*
Mr. PANG Hong
Mr. LI Fusheng

COMPANY SECRETARY
Mr. LAU Chi Yuen

AUTHORIZED REPRESENTATIVES
Mr. WONG Kui Shing, Danny
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
MUFG Fund Services (Bermuda) Limited
26 Burnaby Street
Hamilton HM 11
Bermuda

Branch Share Registrar in Hong Kong
Tricor Progressive Limited
Level 22,
Hopewell Centre,
183 Queen's Road East,
Hong Kong

PRINCIPAL BANKER
The Hongkong and Shanghai Banking
Corporation Limited

STOCK CODE
00198

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CEO's Statement

To all shareholders:

During the twelve months ended 31 December 2013, SMI Corporation Limited (the "Company") and its subsidiaries (collectively the "Group") have focused on developing core business (the Movie Theater Business as well as Film and TV Series Investments), increased resource investment to accelerate the expansion of new complementary business (Xingmeihui (in-theater counter sales and online shopping), advertising and promotion business), deepened the implementation of the New Membership Integrated Marketing Scheme (the "New Membership Scheme"), actively promoted Stellar mobile e-commerce client to develop new channel terminals, and ensured the steady growth of all business of the Group.

During the year, benefiting from the stable growth of national economy and the prosperity of the Chinese film market, the Company has further extended its movie theater footprints in high-growth second and third tier cities in China while securing its leading position in the first tier cities as a leader in the field of theater operation in China, so as to enlarge its market share and consolidate its industry status.

While ensuring the steady development of core business, our Group has increased resource investment to actively promote the development of new complementary business (Xingmeihui (in-theater counter sales and online shopping), advertising and promotion business), enriched our business model, provided the customers with comprehensive cultural media service to meet the diversified needs of the customers, and continued to lead the new trend in the field of culture media.

The Group has given full play to the role of the New Membership Scheme during the year to get an insight into the customer demand and provide corresponding services and products, which has further improved the brand image of the Group and enhanced the overall revenues of different business segments by creating a synergizing effect with other business of the Company. Moreover, the Company has made great efforts to develop Stellar mobile e-commerce client terminal to expand the online and offline marketing channels of the Group.

OVERVIEW

The Company has strengthened the core business and actively developed the new complementary business through increasing investment. At the same time, the Company has carved out a new channel of online to offline ("O2O") business, stimulating the strategic upgrading of the Group from a supreme traditional movie theater operator to a leading digital media entertainment operator. During 2013, the Company has further expanded its business layout by extending its business into new provinces and cities and opening more movie theaters in high-growth second and third tier cities in China.

In 2013, the Chinese film industry ushered in a golden development period, and developed rapidly under the great support of national policies. During the year, the domestic GDP grew by 7.7% year on year, 2.6 times of the world's economic growth for the same year. The sustained steady growth of national economy has stimulated the growth of demand for cultural life, which has created a good external environment for the Chinese film industry. In July of the same year, the State Council introduced "Notice of General Office of the State Council of the People's Republic of China on Regulations of Printing and Distributing Main Responsibilities, Internal Organizations and Staffing of State Administration of Press, Publication, Radio, Film and Television of the People's Republic of China", explicating to cancel the script review of general theme movies and implement the publicity of synopsis. This policy signals that the Government has relaxed the review environment of film creation, which is believed to be conducive to the creation of more good films.

During the year, the total box office revenue in China exceeded RMB20 billion, and the admissions reached as high as 610 million people, enabling China to continue to maintain the status of the world's second largest box office revenue and narrow the gap with the United States gradually. When the domestic film market is enjoying a boom, the domestic movies have stroked record-high box office revenues repeatedly. In 2013, the number of domestic movies released accounted for 39% of the total output in China, the highest one over the years, and achieved the total box office revenues of RMB12.77 billion, up 54.3% from a year earlier, which has added a brilliant record to the Chinese film history and sufficiently demonstrated the improving quality and the increasing market demand of domestic movies.

In response to the strong demand of the Chinese film industry, our Company has created a comprehensive integrated business model through the New Membership Scheme and in combination with the core business (the Movie Theater Business) and the new complementary business (Xingmeihui). At the same time, we have improved the business model and realized the increase of the overall revenue of the Group through promoting Stellar mobile e-commerce client terminal, intergrating online and offline marketing channels, and developing new terminal channels.

MOVIE THEATER BUSINESS

Benefiting from the favorable economic environment and policies, the Chinese film industry flourished in 2013, but the competition between domestic film operators also intensified, which was particularly obvious in the first tier provinces and cities in China. In order to consolidate the leading edge in the industry, our Company has timely adjusted the business strategy to promote the construction of movie theaters in the high growth second and third tier cities in a more active way while securing the market share in the first tier provinces and cities, thus extending its business to more cities, expanding the business layout, and consolidating the channel advantages of the Group.

During the year, the Group has put the business focus on the second and third tier provinces and cities with rapid economic growth, and has opened more theaters in cities like Chengdu and Rugao, etc. The Group's business strategy of focusing on the development of movie theaters in the second and third tier cities in China conforms to the industry development trend, which is believed to inject new momentum to the core business of the Company, improve the revenue of the business segment, and consolidate the leading position of the Company in the industry.

In addition to actively expand the national coverage of cinema network, our Group has accelerated the upgrading of projection facilities and screens of all theaters and installed more 3D and IMAX screens in theaters, so as to provide the audiences with the best viewing service and enable them to have a high-quality visual enjoyment. During the year, all of the Group's projection facilities were digitalized, and most of the theaters were equipped with 3D or IMAX screens, so as to enable the Group's theaters to maintain a leading edge in both quality and number of the facilities.

With the objective to enhance the movie theater business of the Group and provide the customers with more comprehensive services, the Company plans to acquire certain of equity interests of a TicketChina Holdings Co., Ltd. in early 2014. And through the one-step platform, Ipiao.com, the Group's online ticketing business was expanded, and the business model was innovated and enriched.

New Membership Integrated Marketing Scheme

The Group introduced the New Membership Scheme in late 2012, by which we are able to have a systematic understanding of the consumption patterns of the customers, thereby developing an appropriate business promotion and marketing plan to fit the customer demand perfectly. We focus on the unique needs of each member and provide them with VIP or personalized services, so as to ensure the loyalty of existing members, attract more audiences to participate in the New Membership Scheme, expand the Group's customer base, guarantee the admissions to movie theaters, and promote the positive development of the Group's core business.

In 2013, the role of the New Membership Scheme as a business tie was brought into full play to link the Group's core business with the new complementary business and create an integrated business model. Through the New Membership Scheme, the film audiences can become the new customers of Xingmeihui business, so as to provide a strong customer base for the development of Xingmeihui business. Relying on the link function of the New Membership Scheme, the Group has successfully promoted the development of the core business and the new complementary business at the same time. Moreover, the New Membership Scheme has strengthened the Group's integrated business model, stimulated the growth potential of different business to form a synergizing effect, driven the Group's overall business development and improved the Group's business revenue, and laid a solid customer foundation for the Group and its business development, which will guarantee the sustainable development of the Group in the future.

MOVIE AND TV SERIES PRODUCTION BUSINESS

The film industry in China soared in 2013, with the total box office revenue reaching RMB21.77 billion and the admissions exceeding 600 million people, up 27.5% and 32% respectively from a year earlier. During the year, the domestic movies have made remarkable achievements. There were 32 movies achieving an individual box office revenue of over RMB100 million, up 52.4% year on year, and 7 of them stroked an individual box office revenue of over RMB500 million. The box office revenue of domestic movies totaled RMB12.77 billion, representing a year-on-year increase of 54.3% and accounting for 58.7% of the total box office revenue of all movies released in China. In 2013, the domestic movies regained the market leading position, proving their huge development potential. During the year, the distribution of domestic movies has become more rational (focusing more on the improvement of quality instead of pure increase of number and expanding the market share with high-quality movies gradually), and thus promoted the healthy development of Chinese film industry.

In 2013, in line with the principle of "providing the high-quality audiences with the best movies", our Group selected excellent films elaborately and allocated resources reasonably, so as to maximize the benefits with lower costs. During the year, the Group has invested to produce a number of movies in different subjects, such as the youth inspirational movie "中國合夥人" (American Dreams in China), and the chick-flick "愛情不NG" (Love Retake), etc.. These films have brought the best visual enjoyment to the audiences. Among them, "American Dreams in China" has become a popular movie which was not only well received by the audiences, but also scored high box office revenue. Data of the State Administration of Press, Publication, Radio, Film and Television of the People's Republic of China show that the box office revenue of "American Dreams in China" was as high as RMB539 million in China, ranking No. 7 among China Top 10 Box Office Revenue Movies for 2013.

Elaborate selection of movies and rational allocation of resources will not only bring economic benefits to the Group and enrich its revenue structure, but also help the Group promote and enhance its image, which is in favor of the future development of the Group.

NEW COMPLEMENTARY BUSINESS

In 2013, the Group forged ahead for positive innovation, and increased more resources to promote the development of new complementary business, so as to inject strong new growth momentum to the Group. During the year, we have actively developed efficient development strategies and optimal promotion approaches, increased the resource investment against key business, and achieved the rapid development of new complementary business, and thus enriched the Group's business portfolio, improved the revenue of the business segment, and boosted the growth of the Group's overall revenue.

During the year, the Group has made great efforts to develop O2O business, integrate online and offline channels, and pool resources to promote the mutual development of Xingmeihui online shopping and offline in-theater counter sales business, in order to make it a famous brand in China.

Xingmeihui

Xingmeihui focuses on in-theater counter sales and online shopping platform, and aims at providing the customers with the brand new shopping experience combining online shopping and store sales. After two years of planning and development, Xingmeihui has established an accurate market positioning and formed a clear development strategy to provide the customers with high-quality and diversified products, including film and TV peripheral products, as well as high-end brands, specialty foods, and fashionable living goods from oversea regions as well as Hong Kong, Macau and Taiwan regions, so as to fully meet the different needs of customers.

During the year, the Company has increased the resource investment, and turned the existing audiences of movie theaters into the retail customers of Xingmeihui through the New Membership Scheme. It is believed that the clear development positioning and the sufficient resource investment will enable Xingmeihui business to maintain sustainable steady growth in the next few years, which is expected to become a new growth point of the Group's revenues.

In late 2013, as another initiative of the innovative business model of Xingmeihui, the first "Xingmeihui Digital Experience Museum" was opened grandly in Beijing, which displays and sells a variety of digital products of world famous brands. Moreover, the museum has introduced an open experience model to provide "online order and offline pickup" service. In the future, the Group plans to look for more suitable provinces and cities to open more Xingmeihui Digital Experience Museums, so it is believed that the business will become a new bright point of the Group's business and inject new momentum to the revenue growth of the Group.

We actively seek cooperation with local and overseas business partners to promote the development of Xingmeihui business.

In February 2014, the Company established a long-term business strategic partnership with JD.com, Inc. ("JD.com"), an online retail giant of electrical appliances and digital products in China. It is believed that this cooperation can further enlarge the varieties of digital goods in xingmeihui.com and provide a stable supply of goods, which will help to improve the market share of Xingmeihui, increase the sales revenue, enhance the brand influence and awareness, and be in favor of the future growth and development of Xingmeihui.

Advertising and Promotion Business

In 2013, the advertising and promotion business achieved rapid growth, and became a considerable source of revenue of the Group.

We have the courage to innovate. And we hope to innovate the traditional advertising model through rationalizing the idle time and space of movie theaters, screening halls and projection screens, develop new advertising and promotion business to carry out national advertising relying on the nationwide cinema network, and break the rules of traditional and localized advertising and promotion business, so as to enable the advertising and promotion of the clients to achieve the ideal effect and maximize the benefits of the resources invested by the clients.

Moreover, in order to meet the high promotion demands of the clients, our Group has installed advanced advertising facilities like LED panels in part of our movie theaters, so as to ensure the best promotion effect from hardware. With the expansion and improvement of Stellar national cinema network, it is believed that the Group's advertising and promotion business will have further development.

CONCLUSIONS

After the transformation and integration in the previous fiscal year, the Group restarted and forged ahead in 2013. During the year, our Group has secured the stable growth of core business by successfully grasping the development trend of the Chinese film market and rationalizing the allocation of resources, achieved the rapid development of new complementary business through vigorous development, actively developed new business model to optimize the business structure of the Group, and promoted the strategic upgrading of the Group from a traditional theater operator to a digital media entertainment operator.

We believe that based on the comprehensive integrated business model and the clear development positioning, our Group can give full play to its advantages in the terminal channels, rely on the powerful business network nationwide to maintain the steady development of core business and rapidly expand new business, promote the development of its channel terminal network in both number and pattern, implement the "channel-oriented" business strategy, consolidate and improve its leading position of in the industry, and strive for the maximum benefits for the Group and the shareholders.

Yours sincerely

Mr. CHENG Chi Chung
Chief Executive Office

31 March 2014, Hong Kong

Management Discussion and Analysis

BUSINESS REVIEW

Benefit from the Government's support for and promotion of culture industry, the Chinese film industry had leap forward development in 2013. The People's Republic of China (the "PRC") recorded total box office revenue of more than RMB20 billion and a total admission of 610 million people to the movie theaters, while the evolving advanced from movie technology like IMAX and digital movies with more domestic movies stroke record-high box office revenue in China, we have witnessed the Chinese film industry entered a golden period of development.

In line with our consistent business philosophy and taking advantage from the development trend of film industry, the Group have focused on developing our core business, the movie theater business as well as film and TV series investments. The Company increased resources and investment in expanding the complementary business (Xingmeihui (in-theater counter sales and online shopping)), advertising and promotion business, as well as the further promotion of the new membership integrated marketing scheme (the "New Membership Scheme"), and vigorously developed Stellar mobile e-commerce clients to expand new potential channel terminals during the twelve months ended 31 December 2013 (the "Year"). And the Group achieved the steady growth in all business lines by adopting a steady business strategy, innovating marketing model, and widening terminal.

In 2013 financial year, the Group's operating revenue was approximately HK$1,418 million, increased by 65% as compared with approximately HK$857 million of the corresponding period in 2012. Profit for the year was approximately HK$116 million, increased by 480% as compared with approximately HK$20 million in 2012, which was primarily attributed to the Government's vigorous effort on promoting the development of culture industry and the increased number of movie audiences, enabling the Company to deliver better performance in the Group's theater operation and related business in 2013.

In 2013, the Group's revenues were mainly contributed by (i) theater operation, (ii) investments in film production and distribution and (iii) in-theater counter sales and online shopping business.

During the year under review, our Group has successfully grasped the development opportunities, it has increased resource and investment in the complementary business while maintaining the steady growth of the existing core business, and by integrating the New Membership Scheme with the Group's other businesses, the Group has enhanced the synergy effect between our businesses, so the Group's comprehensive competitive strength has improved, and its leading position in the industry has consolidated.

Movie Theater Business

In 2013, the Chinese film industry continued to flourish, the total box office revenue hitting RMB21.77 billion, up 54.3% year on year, and the admissions reaching 612 million people, up 32% over the corresponding period in 2012. Encouraged by the favorable development prospect of the industry, the Group has actively put forward our development plan of our core business.

As at 31 December 2013, the Group was operating a total of 68 movie theaters with 490 screens in major cities in China, representing an increase of 30.8% and 35% year on year respectively as compared with 52 movies theaters with 363 screens in 2012. During the year under review, in addition to secure its leading position in the first tier cities like Beijing, Shanghai, Guangzhou and Dongguan, our Group kept up its effort in extending its movie theater footprints to the great development potential second and third tier cities. The Group will further expand its business layout in Chengdu, Rugao and 105 other cities, in order to consolidate its leading position among the movie theater operators in China.

Based on the data of 3D movies in 2013, there were total 46 movies, of which 21 were Chinese domestic movies, which generated total box office revenue of approximately RMB3 billion. In recent years, high-quality and superb-effect 3D and IMAX movies were popular among the audiences, and the number and quality of such movies showed rapid growth trend over years. In order to satisfy the audiences of superior viewing experience, we will accelerate the pace of upgrading facilities and screens of all theaters operated by the Group and equipped all existing and new movie theaters with more 3D and IMAX screens. As at 31 December 2013, all of the Group's projection facilities were digitalized and most of the theaters were equipped with 3D or IMAX screens and the number has outstood the industry average.

In 2013, the Group opened 16 movie theaters and it took time for construction and decoration. In addition, the Company made full year depreciation for the 15 movie theaters completed or opened in 2012 during the year, which has offset a partial of the segment profit of movie theater business segment in 2013. The depreciation and amortization of movie theater business segment in 2013 was approximately HK$127 million (2012: HK$84 million).

New Membership Integrated Marketing Scheme

It has been over one year since the New Membership Scheme was launched in late 2012, which has helped the Company to get a systematic understanding of customer needs, stabilize the existing customers and develop new customers. Moreover, it has set up a complete customer database, which has laid the foundation for the sustainable development of the Company's core business (the movie theater business) and complementary business (Xingmeihui). After a year of development, the New Membership Scheme has successfully become the business tie of our Group that has been integrated into our core business segments. It stimulated the growth potential of all business and optimized the integration strategy model of the Group. It has also created synergy effect and promoted the sustainable and healthy development of the Group.

The Group will continue to push the New Membership Scheme forward and bring it into full play, so as to further expand the Group's membership database and secure the future development of the Group's core business and complementary business.

Investments in Film Production and Distribution – Movie and TV Series Production Business

In 2013, the profit generated from this segment was approximately HK$78 million (2012: HK$31 million), and the revenue from investments on film production and distribution segment was approximately HK$163 million (2012: HK$71 million). During the Year, the movies distributed by the Group were well received by the audiences. In addition, as the Chinese film industry has entered a high-speed growth period, the segment recorded substantial growth of revenues and profit as compared to the corresponding period last year, which recorded a year-on-year growth of 130% and 152% respectively.

The Chinese domestic movies entered a rapid development period in 2013. The total box office revenue of domestic movies released in China reached RMB12.77 billion for the year, representing a year-on-year increase of 54.3% and accounting for 58.7% of the total box office revenue of all movies released in China. As the industry leader, the Group has been dedicated to promoting the development of domestic movies and the Chinese film industry. During the year under review, the Group selected movies elaborately and allocated resources reasonably, so as to maximize the profits with lower costs and improve the gross margin of investments in film production and distribution segment.

During the year, in line with our vision of "providing the high-quality audiences with the best movies", our Group has invested to produce many popular movies, including "中國合伙人" (American Dreams in China), "愛情不NG" (Love Retake). Among them, "American Dreams in China" was not only well received by the audiences as another masterpiece of director Peter Chan Ho-San, but also scored over RMB500 million box office revenue in China, making it one of the China Top 10 Box Office Revenue Movies for 2013. Excellent films not only can bring benefits to the Group, but also help promoting and consolidating its image.

New Complementary Business

In 2013, the Group determined to further optimize the development of complementary business, as well as to increase resources and investment in this business, and enrich the Group's business portfolio and broaden its source of revenue through developing the new complementary business including Xingmeihui as well as advertising and promotion business.

During the year, the complementary business has developed so rapidly to become the Group's strong source of revenue. The Group has put tremendous effort in developing the O2O business and opened up O2O channels. Through pooling resources to promote Xingmeihui business as well as online shopping and in-theater counter sales business, we have been devoted to making it a famous brand in China. In February 2014, the Company plans to acquire certain of equity interests of TicketChina Holdings Limited (票量中國控股), hoping to expand the Group's O2O integrated marketing platform though Ipiao.com, an integrated platform that provides entertainment, social, and online ticketing services.

In-theater Counter Sales and Online Shopping – Xingmeihui (星美匯)

Introduced in late 2011, Xingmeihui focuses on in-theater counter sales and online shopping platform for the Group. After two years of planning and development, Xingmeihui has experienced strong growth during the year. The segment achieved a revenue of approximately HK$48 million, representing an increase of 8% year on year, and will become a new engine of the Group's growth.

In 2013, the Company opened 16 new movie theaters, most of which were with Xingmeihui counters. By the end of December 2013, the Group has set up a total of 68 Xingmeihui in-theater counters. The Company was actively seeking cooperation with local and overseas business partners to provide the customers with a diversity of quality products, including high-end brands and living goods from overseas as well as Hong Kong, Macau and Taiwan regions, so as to fully meet the different needs of customers.

In addition, in late 2013, the first "Xingmeihui digital experience museum" (the "Xingmeihui Digital Experience Museum") was opened in Beijing, which displays and sells digital products of famous brands over the world. The Museum introduces an open experience model and provides "online order and offline pickup" service. And it was a new breakthrough for the development of the Group's O2O business during the year. With more Xingmeihui Digital Experience Museums scheduled to be opened, it is expected that the business, as an important initiative for the Group to develop O2O business, will become one of the important sources of revenue of the Group. In the future, the Group will increase resources and investment in Xingmeihui, and connect it closely with the Group's core business to accelerate its growth through the implementation of the New Membership Scheme. Out of the thearters, the Group also considers to establish the Xingmeihui Digital Experience Museum.

In February 2014, the Company signed a cooperation agreement with JD.com, an online retail giant of electrical appliances and digital products in China. Through this cooperation, the Group can comprehensively enlarge the varieties of digital goods in xingmeihui.com, which will help Xingmeihui to capture market share quickly, thus improve sales revenue and enhance the influence of SMI's brand.

With the objective to satisfy the different advertising needs of customers and vigorously promote the development of advertising and promotion business, the Group has rationalized the layout of the idle time and space of movie theaters, screening halls and projection screens, actively sought the best advertising business development strategy, diversified the advertising channels, and innovated the indoor and outdoor promotion ways. Meanwhile, in order to meet the high promotion demands of the customers, our Group has installed advanced advertising facilities like LED panels in our movie theaters, so as to cooperate with the promotion from hardware and achieve the best promotion effect through high-tech advertising channels.

Prospects

According to the relevant authorities, China's domestic GDP growth is anticipated to reach 7.5% in 2014, which is still to maintain a steady high-speed growth when compared with the world's economic growth. During the NPC and CPPCC interviews, Director of Cultural Industry Division under the Ministry of Culture of the People's Republic of China stated that a number of policies to promote the cultural industry would be introduced in 2014 to support the optimization and development of cultural industry. It is convinced that the synchronous growth between domestic economy and audience demand for culture, as well as the implementation of favorable policies will further stimulate the development of cultural industry and create a good external environment for the future development of the Group.

The film industry in China has entered a golden period of development. In response to the accompanying opportunities and challenges, our Group will continue to maintain the prudent operation strategy, give full play to the comprehensive integrated business model, and take advantage of the powerful channel terminals nationwide to ensure the sustained growth of performance. In the future, the Group will focus on promoting the construction of the two channels of cinema terminal and mobile terminal to realize a brand new pattern of compound development of the two terminals, make use of the online platform Ipiao.com to secure the Group's leading edge in terminal channels, and promote the Group's other business based on the national channel terminal network, so as to ensure the long-term development of our overall business.

Looking forward, the Group will use a two-pronged approach to fully develop business. On the one hand, the Group will accelerate the investment in cinema terminal, intending to have a total of 200 movie theaters three years later by constructing 40 new theaters a year, with over 1,000 projection screens, 80 million audiences, and 10 million members. On the other hand, the Group will push forward the construction of mobile e-commerce channels in full swing. It is expected that in the next three years, Stellar mobile e-commerce will have 50 million users, 200 e-malls, and 300 Xingmeihui Digital Experience Museum. Our Group believes that stimulated by continuous integration and reorganization, the Group will certainly achieve overwhelming development and create huge value for shareholders in the future.

FINANCIAL REVIEW

Turnover, Revenue and Profit for the year

During the year ended 31 December 2013, total turnover and revenue amounted to approximately HK$1,452 million and approximately HK$1,418 million respectively (2012: approximately HK$912 million and approximately HK$857 million respectively), an increase of 59% and 65% as compared with 2012 respectively.

During the year ended 31 December 2013, the profit after tax was approximately HK$116 million (2012: approximately HK$20 million), an increase of 480% as compared with 2012.

The increase in profit was mainly due to the stable growth of the Group's core business and the rapid growth of complementary business which has become the Group's another strong source of revenue and has increased the Group's annual revenue substantially. In addition to the Group's prudent and reasonable spending plan, the Group recorded a substantial increase in profit in the 2013 financial year.

During the year ended 31 December 2013, the segment revenue and profit were mainly contributed by theater operation as well as investments in film production and distribution segments.

The revenue of theater operation for the year ended 31 December 2013 increased by approximately HK$474 million compared to 2012 while and the profit increased by 4,701% from approximately HK$4 million in 2012 to HK$183 million in 2013.

Furthermore, the complementary business did well during the year. Among which, in-theater counter sales and online shopping segment recorded revenues and profit of approximately HK$48 million and HK$3 million respectively.

In July 2013, the Group has disposed of its non-core business by transferring 50% equity interest in a joint venture of the Group to a former director Mr. HU Yidong for a consideration of HK$81 million.

Selling, Marketing and Administrative Expenses

The selling, marketing and administrative expenses increased by 39%, which were mainly attributable to the increase in number of theaters completed and the advertising expenses for the promotion of the new business of the Group during the year ended 31 December 2013 .

Financial Costs

Financial costs were mainly represented by the interest of approximately HK$12 million from other loans, interest of approximately HK$25 million from long term bonds, interest of approximately HK$4 million from securities margin facilities and finance lease charges of approximately HK$4 million.

Financial Resources and Liquidity

As at 31 December 2013, the Group had net current liabilities of approximately HK$527 million. This is mainly due to other loans obtained from independent third parties of approximately HK$63 million, the convertible notes of HK$141 million issued to the controlling shareholder which will be due on 27 May 2014 and the receipts in advance of approximately HK$210 million which were mainly contributed by the sales of membership cards and deferred advertising income during the year.

Moreover, the Group has been operating in profit since 2010. The Directors believe that the Group will have sufficient cash resources to satisfy its future working capital requirement.

As at 31 December 2013, the gearing ratio (total debts (including convertible notes) to equity attributable to equity holders of the Company) rose to 30.6% from 15.5% in 2012, which was mainly due to the bank and other borrowings of approximately HK$337 million obtained in 2013.

The Group was financed mainly through share capital, reserves, bonds and bank and other borrowings.

Foreign Exchange Risks

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

The Group currently does not have any foreign currency hedging policy. The Directors consider 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 denominated investment in China. The Group will monitor its foreign currency exposure closely and will consider implementing appropriate foreign currency hedging policies should the need arise.

Capital expenditures

During the year, the Group had capital expenditures of approximately HK$371 million. And the net increase in prepayments for the construction of movie theaters was approximately HK$441 million. The above expenditures were mainly related to the construction of movie theaters by the Group all over China.

Contingent liabilities

Up to the date of this report, there are certain disputes which arise from time to time in the ordinary course of the operation of theaters. The Group is in the course of processing these matters. While it is in an early stage of those disputes, the Directors of the Company are of the view that these disputes will not have a material adverse impact on the financial results of the Group.

As at 31 December 2013, the Group and the Company did not have any other significant contingent liabilities.

Employees

Excluding the staff of associates and joint ventures, the Group had a total of 2,138 full-time staff as at 31 December 2013 (including directors but excluding part-time staff). The Group 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. CHENG Chi Chung, aged 47, was appointed as executive director of the Company on 22 November 2011 and Chief Executive Officer ("CEO") of the Company on 7 June 2012. He holds an EMBA degree from Tsinghua University of Beijing and a bachelor degree from Taiwan University, and obtained Special Awards and honor of the 44th National Culture and Arts in China. He also had been the chief executive officer of Beijing Gome Online Co., Ltd.（北京國美在線有限公司）, the group vice president of China Seven Star Shopping Limited (a company listed on the main board of the Stock Exchange, stock code: 0245), the chief executive officer of Beijing Yichengyangguang Technology Development Co., Ltd.（北京億誠陽光科技發展有限公司）, the general manager of Eastern Broadcasting and Eastern Shopping (America)（東森電視及東森購物（美洲））, the general manager of Eastern Public Relations Company（東森公關公司）and the director of Eastern Broadcasting News Channel（東森電視新聞台）. Mr. CHENG has extensive management experience in culture, media and retail areas.

Mr. WONG Kui Shing, Danny, aged 54, was appointed as an executive director and CEO of the Company on 5 August 2009. He was redesignated as the chairman and non-executive director of the Company and ceased to be the CEO of the Company on 25 November 2009. He resigned from all his positions in the Company on 26 March 2010 due to his need to devote more time to his other commitments. He was appointed executive director of the Company again on 22 November 2011. He holds a Bachelor of Arts degree from the University of Hong Kong. He was appointed as an executive director and managing director of See Corporation Limited (stock code: 491) since 21 December 2009. In addition, Mr. WONG was a former executive director of China Oil and Gas Group Limited (stock code: 603), a company listed on the main board of the Stock Exchange. He has extensive exposure in the financial and investment fields for over 20 years and is well experienced in the international investment market.

Mr. LEE Chee Chuang, Roger, aged 44, was appointed as executive director of the Company on 3 May 2013. He holds a Bachelor of Commerce (Accounting and Finance) from Griffith University in Brisbane, Australia. He is currently the Chief Executive Officer of Stellar Megamedia International (Singapore) Pte Ltd ("SMI (Singapore)"), a company held by Mr. QIN Hui, the controlling shareholder of the Company. Furthermore, Mr. LEE is also a managing director of Fileforce Singapore Pte Ltd and WH Marketing Pte Ltd, both companies principally engage in trading foodstuff, raw materials, construction materials, furniture and office supplies. Mr. LEE had gained his extensive media and financial experience while working at MediaCorp (former name: Singapore Television 12) and Pricewaterhouse Coopers Singapore (former name: Pricewaterhouse Singapore).

Mr. YANG Rongbing, aged 34, holds a MBA from Central University of Finance and Economics. Mr. YANG joined the Group in 2010 and is an executive director and the vice president of the Company. Mr. Yang is mainly responsible for corporate strategy whilst oversees a list of key operational departments including finance, investment, human resources and legal. Mr. Yang has extensive experience in investment and finance, and familiar with relevant areas with regard to the media industry, including financial markets and tax planning. Mr Yang is also an expert in adopting a wide range of innovative financial vehicles to support rapid growth and continuously improving capital structure. Mr. YANG has acquired deep experiences in financial management, capital planning, internal control, investment and financing and capital financial strategy from serving various financial and investment roles in state-owned enterprises and institutions such as Beijing Golden Tide Group Co., Ltd., Foreign Economic Cooperation Office under Ministry of Environmental Protection, Center for Development of Trade and Control of Investment in Europe, etc.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. HE Peigang, aged 67, was appointed as independent non-executive director of the Company on 8 December 2009. Mr. HE is a certified public accountant with the title of senior accountant 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 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, aged 59, was appointed as independent non-executive director of the Company on 28 September 2004. Mr. PANG had worked for various enterprises and government departments in China for over 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. He is currently engaged in providing private management consultancy services. Mr. PANG was a former executive director of PacMOS Technologies Holdings Limited (Stock Code: 1010) and a former independent non–executive director of Dragonite International Limited (Stock Code: 329), both shares are listed on the main board of the Hong Kong Stock Exchange.

Mr. LI Fusheng, aged 52, was appointed as indepedent non-executive director of the Company on 10 October 2013. Mr. LI is the manager of Beijing Office of Hong Kong Ta Kung Pao. Since joining Ta Kung Pao in 1994, Mr. LI has reported many breaking news and important events. He has reported many significant events in Mainland China, such as reporting the news about the National People's Congress and Chinese People's Political Consultative Conference for 20 consecutive years, and the Beijing Olympic Games. Mr. LI has extensive experience and network in the media industry.

Directors' Report

The Board of Directors (the "Board" or "Directors") presents their annual report of the Company for the year ended 31 December 2013 (the "Reporting Period").

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 47 to the consolidated financial statements.

Details of the Company's principal subsidiaries, joint ventures and associates as at 31 December 2013 are set out in notes 47, 21 and 20 to the consolidated financial statements on pages 92, 73 and, 71 respectively.

There were no significant changes in the nature of the principal activities of the Company and of the Group during the Reporting Period.

RESULTS AND APPROPRIATIONS

The results of the Group for the Reporting Period are set out in the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income on page 33 and 34.

The Directors recommended the payment of a final dividend of HK0.41 cents per ordinary share totalling approximately HK$34,652,000 (2012: Nil).

SHARE CAPITAL AND RESERVES

As at 31 December 2013, the total number of shares issued by the Company was 8,451,606,688 shares.

Movements in the Company's authorized and issued share capital are set out in note 38 to the consolidated financial statements on pages 86. Movements in the reserves of the Group are set out in the consolidated statement of changes in equity on page 36 and those of the Company are set out in note 48 to the consolidated financial statements on page 97.

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

On 13 September 2013, the Company entered into a placing agreement pursuant to which the Company could issue a maximum of 350,000,000 new shares of HK$0.1 each at the subscription price of HK$0.18 per share. The gross proceeds from this were approximately HK$63,000,000. The placing agreement was completed and 350,000,000 new shares of the Company were issued and allotted on 16 October 2013. Further details of the above transactions are set out in the announcements of the Company dated 13 September 2013 and 16 October 2013 respectively.

On 25 June 2013, the Company entered into a Deed of Amendment in respect of the alteration of terms of the convertible bonds under the subscription agreement date 30 March 2011, the maturity date of the convertible bonds of HK$0.47 per conversion share in principal amount of HK$141 million was extended from 27 May 2013 to 27 May 2014. Further details of the above transactions are set out in the circular dated 6 June 2013.

PROPERTY, PLANT AND EQUIPMENT

Details of the Group's property, plant and equipment as at 31 December 2013 are set out in note 17 to the consolidated financial statements on page 68.

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. CHENG Chi Chung	*(Chief Executive Officer)*
Mr. WONG Kui Shing, Danny	
Mr. LEE Chee Chuang, Roger	*(appointed as executive director on 3 May 2013)*
Mr. YANG Rongbing	*(appointed as executive director on 3 May 2013)*
Mr. HU Yidong	*(resigned as executive director and Chairman on 3 May 2013)*
Mr. QIN Hong	*(resigned as executive director and Chairman on 17 January 2013)*

Independent non-executive directors:

Mr. HE Peigang	
Mr. PANG Hong	
Mr. LI Fusheng	*(appointed as independent non-executive director on 10 October 2013)*
Mr. CHAN Sek Nin, Jackey	*(resigned as independent non-executive director on 10 October 2013)*

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

In accordance with bye-law 87(1) and 87(2) of the Company's Bye-laws, Mr. WONG Kui Shing, Danny and Mr. LEE Chee Chuang, Roger, and Mr. YANG Rongbing will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Meanwhile, in accordance to Code Provision A.4.3. of Appendix 14 of the Rules Governing the Listing of Securities of the Stock Exchange (the"Listing Rules"), which states that if an independent non-executive director ("INED") serves more than 9 years, his further appointment should be subject to a separate resolution to be approved by shareholders. Mr. PANG Hong ("Mr. PANG") has been appointed as the INED of the Company since 28 September 2004 and is subject to be appointed in a separate resolution by shareholders in the forthcoming AGM. The Board considers that Mr. PANG meets the independence guidelines set out in Rule 3.13 of the Listing Rules and the Company has received his annual written independence confirmation. Even though Mr. PANG has served as an INED for more than nine years, the Board is of the view that his duration of service will not interfere with his exercise of independent judgment in carrying out the duties and responsibilities as an INED. The Board considers him to be independent and believes he will continue to contribute to the Board because of his familiarity and experience with the Company's businesses and affairs. Accordingly, Mr. PANG will retire from office and be eligible to offer himself for re-election.

And, each of the three independent non-executive directors has 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'S INTERESTS

As at 31 December 2013, 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	Underlying Interest	Total Interest	% of total issued shares
CHENG Chi Chung	Beneficial owner	–	–	40,000,000	40,000,000	0.47%
WONG Kui Shing, Danny (Note a)	Interest of controlled corporation/Beneficial owner	–	1,000,000	40,000,000	41,000,000	0.49%
YANG Rongbing (Note b)	Beneficial owner	1,076,000	–	20,000,000	21,076,000	0.25%
HE Peigang	Beneficial owner	–	–	5,000,000	5,000,000	0.06%
PANG Hong	Beneficial owner	–	–	5,000,000	5,000,000	0.06%
HU Yidong (resigned as director and Chairman on 3 May 2013) (Note c)	Beneficial owner	–	–	40,000,000	40,000,000	0.47%
QIN Hong (resigned as director and Chairman on 17 January 2013) (Note d)	Beneficial owner	139,400,000	–	80,000,000	219,400,000	2.60%
CHAN Sek Nin, Jackey (resigned as director on 10 October 2013)	Beneficial owner	–	–	5,000,000	5,000,000	0.06%

Notes:

(a) According to the Director's/Chief Executive's Notice of Mr. WONG Kui Shing, Danny filed on, 17 October 2013 1,000,000 shares are held by Global Moral Investments Limited ("Global Moral"), which Mr. WONG Kui Shing, Danny owns 50% control of Global Moral.

(b) According to the Director's/Chief Executive's Notice of Mr. YANG Rongbing filed on 17 October 2013, Mr. YANG was interested in 21,076,000 shares comprise 20,000,000 underlying shares and 1,076,000 shares.

(c) As at the date of this report, Mr. HU Yidong, who has resigned as an executive director and Chairman of the Company, was interested in a total of 40,000,000 underlying shares.

(d) As at the date of this report, Mr. QIN Hong, who has resigned as an executive director and Chairman of the Company, was interested in 219,400,000 shares which comprise 139,400,000 shares and 80,000,000 underlying shares.

Save as disclosed above, as at 31 December 2013, none of the other 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 2013, 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 (Notes)	Balance as at 1 January 2013	Granted during the year	Exercised during the year	Lapsed during the year	Balance as at 31 December 2013	Exercise price per share HK$
Director								
CHENG Chi Chung	19 July 2013	1	–	40,000,000	–	–	40,000,000	0.18
WONG Kui Shing, Danny	19 July 2013	2	–	40,000,000	–	–	40,000,000	0.18
YANG Rongbing	19 July 2013	1	–	20,000,000	–	–	20,000,000	0.18
HE Peigang	19 July 2013	1	–	5,000,000	–	–	5,000,000	0.18
PANG Hong	19 July 2013	1	–	5,000,000	–	–	5,000,000	0.18
Other Eligible participants								
Consultants[1]	19 July 2013	1	–	140,000,000	–	–	140,000,000	0.18
Consultants[2]	19 July 2013	2	–	160,000,000	–	–	160,000,000	0.18
Former Directors	11June 2010	3	86,075,507	–	–	86,075,507	–	0.51
QIN Hong	19 July 2013	1	–	80,000,000	–	–	80,000,000	0.18
	11 June 2010	3	33,000,000	–	–	33,000,000	–	0.51
HU Yidong	19 July 2013	1	–	40,000,000	–	–	40,000,000	0.18
	11 June 2010	3	15,000,000	–	–	15,000,000	–	0.51
LI Kai (Note 4)	11 June 2010	3	5,000,000	–	–	5,000,000	–	0.51
CHAN Sek Nin	19 July 2013	1	–	5,000,000	–	–	5,000,000	0.18

Notes:

(1) from 19 July 2013 to 18 July 2016 (both dates inclusive) provided that the maximum number of share options granted on 19 July 2013 which may be exercisable by each of the Grantee in each one year of the exercise period shall not exceed one-third of the Options granted to that Grantee.

(2) Mr. WONG Kui Shing, Danny and two consultants of the Group entitling the holders of the share options granted on 19 July 2013 to subscribe for a total of 200,000,000 shares options can be exercisable during the exercise period from the 19 July 2013 to 18 July 2016 (both dates inclusive).

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

(4) Mr. LI Kai resigned as director of the Company on 22 November 2011.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2013, so far as it 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	6,229,712,961 (Note 1)	23,878,623 (Note 2)	5,953,591,584	–	73.99%
Kingston Finance Limited ("Kingston")	1,957,118,644	–	1,957,118,644 (Note 3)	–	23.16%
Ample Cheer Limited ("Ample Cheer")	1,957,118,644	–	1,957,118,644 (Note 3)	–	23.16%
Best Forth Limited ("Best Forth")	1,957,118,644	–	1,957,118,644 (Note 3)	–	23.16%
Chu Yuet Wah ("Madam Chu")	–	1,957,120,274	1,957,120,274 (Note 4)	–	23.16%

Notes:

1. Mr. QIN Hui is beneficially interested in the convertible notes in the principal amount of HK$141 million issued by the Company which is convertible into 300,000,000 shares at the conversion price of HK$0.47 per share. Mr. QIN Hui is therefore interested in 6,229,712,961 shares which comprise (i) 300,000,000 underlying shares and (ii) 5,929,712,961 shares.

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 filed on 18 October 2013, Kingston, as person having a security in shares, is interested in 1,957,118,644 shares which comprise (i) 300,000,000 underlying shares and (ii) 1,657,118,644 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 1,957,118,644 shares held by Kingston.

4. According to the Individual Substantial Shareholder Notice filed by Madam Chu on, 18 October 2013, Madam Chu is deemed to be interested in 1,957,120,274 shares which comprise (i) 300,000,000 underlying shares and (ii) 1,657,120,274 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 (resigned as director and Chairman on 3 May 2013)	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 (resigned as director and Chairman on 17 January 2013)	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 Board believes that the above businesses are unlikely to be of any significant competition with the businesses of the Group.

Apart from the foregoing, no director of the Board 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 is as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	2.7%	
Five largest customers in aggregate	6.7%	
The largest supplier		31.3%
Five largest suppliers in aggregate		44.9%

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 38 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 2013, 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 Board.

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 14 to the condensed consolidated financial statements on page 66.

CONTINGENT LIABILITIES

As at 31 December 2013, the Group and the Company did not have any significant contingent liabilities.

EVENT AFTER THE REPORTING PERIOD

Details of significant events occurring after the date of statement of financial position are set out in note 50 to the consolidated financial statements on page 98 to 99.

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 100 of the annual report.

AUDITORS

RSM Nelson Wheeler ("RSM"), the Company's auditors, will retire and, being eligible, offer themselves for re-appointment. A resolution will be proposed at the forthcoming annual general meeting to re-appoint RSM as auditors of the Company.

APPRECIATION

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

By order of the Board
CHENG Chi Chung
Chief Executive Officer

Hong Kong, 31 March 2014

Corporate Governance Report

OVERVIEW OF CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance. The Board believed that effective internal control and corporate governance practices are essential for the sustainable growth for the Group and for safeguarding and maximizing the interest of the shareholders.

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

THE CORPORATE GOVERNANCE CODE

During the Reporting Period, the Company was in compliance with the provisions of the CG Code, except for the deviations from Code Provisions A.2, A.4.3, A.6.7 and E.1.2 which are explained below:

Chairman and Chief Executive Officer

Under Code Provision A.2.1, the role of both the Chairman and Chief Executive Officer should be separated and should not be performed by the same individual. During the Reporting Period, after the resignation of Mr. HU Yidong as director and chairman of the Company ("Chairman") on 5 May 2013, no individual was formally appointed as Chairman of the Company. The role of the Chairman has been performed collectively by all executive directors of the Company.

The Board considers this arrangement allows contributions from all executive directors with different expertise and is beneficial to the continuity of the Company's policies and strategies and the interest of the shareholders of the Company as a whole.

The Board will continue to use its best endeavour in finding a suitable candidate to assume duties as Chairman of the Company as soon as possible.

Independent Non-executive Director

Pursuant to code provision A.4.3 of the CG Code, (a) having served the Company for more than nine years could be relevant to the determination of an independent non-executive director's independence; and (b) if an independent non-executive director has served for more than nine years, his further appointment should be subject to a separate resolution to be approved by shareholders.

Notwithstanding that Mr. Pang Hong has served as an independent non-executive Director for more than nine years since September 2004, the Board is of the view that his independence is not affected by his long service with the Company. Mr. Pang Hong meets the independence guideline set out in Rule 3.13 of the Listing Rules. He is independent of the management and free from any business or other relationship or circumstances which would materially interfere with the exercise of his independent judgement. Hence, the Board considered Mr. Pang Hong as independent and should be re-elected as an independent non-executive Director at the AGM.

Attendance of directors in general meetings

In respect of the provision A.6.7, Messrs. CHENG Chi Chung, LEE Chee Chuang, Roger and YANG Rongbing, three of our executive directors and Mr. PANG Hong, the independent non-executive director of the Company, were unable to attend the special general meeting and annual general meeting of the Company held on 25 June 2013 and 26 June 2013 respectively due to their overseas engagements and flight delay.

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.

Chairman attend annual general meeting

Code provision E.1.2 stipulates that the chairman of the board should attend the annual general meeting ("AGM").

The Company does not at present have any officer with the title Chairman. An executive director of the Company chaired the 2013 AGM and answered questions from the shareholders. The AGM provides a channel for communication between the Board and the shareholders. Two members of the Audit and Remuneration Committee were also available to answer questions at the 2013 AGM. Other than the AGM, the shareholders may communicate with the Company through the contact information listed on the Company's website.

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 which provide the Board with a balanced composition of skills and experience appropriate for the requirements of the business of the Company. Biographies of all the Directors and the relationships (if any) among them are set out on pages 14 to 15 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 2013 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 and objectives of the Company
- Approval of the annual budgets and financial reports of the Group and selecting suitable accounting policies and ensuring consistent application of these policies
- Monitoring the operating and financial performance of the Group
- Overseeing the management of the Company's relationships with the stakeholders, especially the Government, shareholders etc.
- 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
- Monitoring the performance of management
- Overseeing the corporate governance policies adopted by the Company

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 CEO
- 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

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

All Directors (including independent non-executive directors) are subject to retirement by rotation and re-election in accordance with the Company's Bye-law and also the CG Code.

The newly appointed directors will offer themselves for re-election at the forthcoming special general meeting or the forthcoming annual general meeting, whichever is earlier in accordance with the Company's Bye-law.

Details of the rotation and re-election of Directors are set in page 17 of this annual report.

NON-EXECUTIVE DIRECTORS

There are currently three non-executive directors who are all 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.

The independent non-executive directors play a significant role in the Board by virtue of their independent judgment and their views carry significant weight in the Board's decision. The Board also considers that the independent non-executive directors can provide independent advice on the Company's business strategies, results and management so as to safeguard the interests of the Company and its shareholders.

TRAINING AND CONTINUOUS SUPPORT

Each newly appointed director would receive an induction upon his appointment. Such induction may include briefing of a director's obligation in the Listing Rules and other statutory requirements, and/or visits to the business site of the Company and meetings with the management of the Company.. This enables the Directors to have a more comprehensive understanding of the Company's business and operation as well as to be aware of his responsibilities as a director in a listed company.

Meanwhile, directors' training is an ongoing process. Pursuant to Code Provision A.6.5 of the CG Code, the directors should participate in continuous professional development to develop their knowledge and skills. During the Reporting Period, the Directors are provided with updates on the Company's performance to enable the Board as a whole and each Director to discharge their duties and have a proper understanding of the Company's business under the applicable laws and regulations The Company would also keep the Directors updated with the latest information regarding the developments and changes in the Listing Rules and other regulatory requirements.

Apart from the updates of the Listing Rules and the Company, directors also visited and met the key managements and the Company's facilities in Hong Kong or PRC in order to understand and be updated of the Company's business and operations. The Company believes that it would ensure that the contribution of the Directors to the Board remains informed and relevant to the Company.

The participation by the Directors for the year ended 31 December 2013 is as follows:–

Name of Directors	Reading Regulatory Updates	Visit/Meeting Key Management
Executive Directors		
CHENG Chi Chung	✓	✓
WONG Kui Shing, Danny	✓	✓
LEE Chee Chuang, Roger	✓	✓
YANG Rongbing	✓	✓
QIN Hong (resigned as director and Chairman on 17 January 2013)	✓	✓
HU Yidong (resigned as director and Chairman on 3 May 2013)	✓	✓
Independent Non-Executive Directors		
HE Pei Gang	✓	✓
PANG Hong	✓	✓
LI Fusheng (appointed as director on 10 October 2013)	✓	✓
CHAN Sek Nin, Jackey (resigned as director on 10 October 2013)	✓	✓

Company Secretary

Mr. LAU Chi Yuen, aged 38, was appointed as the company secretary and authorized representative of the Company on 11 June 2009, is a full time employee of the Group and has day-to-day knowledge of the Company's affair. The company secretary has duly complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

Mr. LAU holds a Master degree in Professional Accounting from the University of Southern Cross. He is a member of the Association of Chartered Certified Accountants with over 15 years of experiences in accounting field. In addition, he also has over 8 years of experience in company secretarial, auditing and taxation fields.

DIRECTORS' AND OFFICERS' INSURANCE ("D&O INSURANCE")

The Company has arranged appropriate D&O insurance cover to protect the Directors and officers from potential legal actions against them.

ATTENDANCE OF INDIVIDUAL DIRECTORS AT BOARD MEETINGS AND GENERAL MEETINGS IN 2013

There were a total of 42 board meetings and 2 general meetings held during the year ended 31 December 2013. The attendance of individual directors at the board meetings and general meetings held during the period is as follows:

Name of Director	Number of board meetings	Number of general meeting
Executive Directors		
Mr. CHENG Chi Chung	38/42	0/2
Mr. WONG Kui Shing, Danny	38/42	2/2
Mr. LEE Chee Chuang, Roger (appointed as director on 3 May 2013)	27/34	0/2
Mr. YANG Rongbing, (appointed as director on 3 May 2013)	34/34	0/2
Mr. HU Yidong (resigned as director and Chairman on 3 May 2013)	8/8	0/0
Mr. QIN Hong (resigned as director and Chairman on 17 January 2013)	0/1	0/0
Independent Non-Executive Directors		
Mr. HE Peigang	15/42	2/2
Mr. PANG Hong	15/42	0/2
Mr. LI Fusheng (appointed as director on 10 October 2013)	1/7	0/0
Mr. CHAN Sek Nin, Jackey (resigned as director on 10 October 2013)	11/35	1/2

Minutes of board meetings and general meetings 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.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the 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 COMMITTEES

Audit Committee

Since 14 July 2009, the Company has established an audit committee (the "Audit Committee") with written terms of reference aligned with the Provisions of the CG Code. The terms of reference of the Audit Committee are disclosed in full on the Company's website. The Audit Committee currently comprises three independent non-executive Directors, namely, Mr. HE Peigang (as chairman), PANG Hong, CHAN Sek Nin, Jackey (until 10 October 2013) and Mr. LI Fusheng (since 10 October 2013).

The primary role of the Audit Committee are to monitor integrity of the annual report and accounts and half-yearly report of the Company and to review significant reporting judgments 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 also meets regularly with the Company's external auditors to discuss the audit progress and accounting matters.

The term of reference of Audit Committee were adopted in March 2012 and are in line with the provisions of the CG Code, a copy of which is posted on the website of the Company and the Stock Exchange.

The Audit Committee held 3 meetings during the year ended 31 December 2013 to consider the full year audit report for financial year ended 31 December 2013. The attendance records of the meetings are as follows:–

Name	Attendance
HE Peigang *(Chairman)*	3/3
PANG Hong	3/3
CHAN Sek Nin, Jackey (resigned on 10 October 2013)	2/3
LI Fusheng (appointed on 10 October 2013)	0/0

Remuneration Committee

Since 14 July 2009, the Company has established a remuneration committee (the "Remuneration Committee") with written terms of reference. The terms of reference of the Remuneration Committee are disclosed in full on the Company's website. The Remuneration Committee currently comprises three independent non-executive directors, namely, Mr. HE Peigang (as Chairman), PANG Hong, CHAN Sek Nin, Jackey (until 10 October 2013) and Mr. LI Fusheng (until 10 October 2013).

Within the authority delegated by the Board, the Remuneration Committee is mainly responsible for 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.

The term of reference of Remuneration Committee were adopted in March 2012 and are in line with the provisions of the CG Code, a copy of which is posted on the website of the Company and the Stock Exchange.

The Remuneration Committee held 3 meetings during the year ended 31 December 2013 to review the remuneration of Directors and senior management for the financial year ended 31 December 2013 and to make recommendations on the remuneration package of the newly appointed Directors. The attendance records of the meeting are as follows:–

Name	Attendance
HE Peigang *(Chairman)*	3/3
PANG Hong	3/3
CHAN Sek Nin, Jackey (resigned on 10 October 2013)	2/2
LI Fusheng (appointed on 10 October 2013)	1/1

Nomination Committee

Since 14 July 2009, the Company has established a nomination committee (the "Nomination Committee") with written terms of reference. The terms of reference are disclosed in full on the Company's website. The Nomination Committee currently comprises three independent non-executive directors, namely, Messrs. HE Peigang (as chairman), PANG Hong, CHAN Sek Nin, Jackey (until 10 October 2013) and Mr. LI Fusheng (since 10 October 2013).

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 term of reference of Nomination Committee were adopted in March 2012 and are in line with the provisions of the CG Code, a copy of which is posted on the website of the Company and the Stock Exchange.

The Nomination Committee held 3 meetings during the year ended 31 December 2013. The attendance records of the meetings are as follows:–

Name	Attendance
HE Peigang *(Chairman)*	3/3
PANG Hong	3/3
CHAN Sek Nin, Jackey (resigned on 10 October 2013)	2/2
LI Fusheng (appointed on 10 October 2013)	1/1

ACCOUNTABILITY AND AUDIT

Remuneration of the Auditors

The remuneration in respect of audit services provided by auditors of the Group for the year ended 31 December 2013 is HK$3,012,000.

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 strived to improve its internal control. Due to the existing operational scale, in late 2013, the Company has reviewed and implemented the existing internal control menu of the Company. Revised internal control menu will be designed to facilitate the effectiveness and efficiency of existing and future operations, safeguard assets against unauthorized use and disposition, ensure the maintenance of proper accounting records for provision of reliable financial information and to ensure compliance with relevant legislation and regulations. Internal control reports will be submitted and discussed by the Audit Committee regularly to review the effectiveness of the internal control policies.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

The responsibilities of the auditors of the Company in preparing the financial statements are set out in the independent auditor's report on pages 31 to 32 of this annual report.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

Investor Relations and Communication with Shareholders

The Company is committed to ensure that its shareholders and the investment community are provided with comprehensive information of the Company in a timely and transparent manner through the announcements, circulars, annual reports and interim reports etc. publish in the websites of the Stock Exchange and the Company, so that the shareholders and investment community are well-informed of the developments and information of the Company. The Company also updates its website regularly to provide other latest information to the shareholders and the investment community.

Effective communication with the shareholders is also maintained by ongoing dialogue with the shareholders through annual general meetings and other general meetings.

The Company has established a shareholder communication policy to provide framework to facilitate effective communication with shareholders.

Shareholder's Rights

Set below is a summary of certain rights of the shareholders of the Company:

(1) Convening an special general meeting on requisition by shareholders

According to the Bye-Laws of the Company, the shareholders of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in accordance with the provisions of Section 74(3) of the Act.

(2) *Procedures for directing shareholders' enquiries to the board*

Shareholders may at any time send enquires and concerns to the board of directors of the Company in writing through the Company Secretary whose contact details are as follows:–

The Company Secretary
SMI Corporation Limited
Suite 6701-2 & 13,
The Center,
99 Queen's Road Central,
Central, Hong Kong
E-mail: info@smi198.com
Tel No.: +852 2111 9859
Fax No.: +852 2111 0498

The Company Secretary shall forward enquires and concerns received to the Board of Directors and/or the relevant board committees of the Company, where appropriate, to answer the shareholders' questions.

(3) *Procedures for putting forward proposals at general meetings by shareholders*

Pursuant to Bye-Law 88 of the Company, the shareholders of the Company may refer to the procedures below for proposing a person for election as a Director of the Company:

Any shareholder (who is duly qualified to attend and vote at the meeting), who wishes to propose a person other than a retiring director of the Company for election as a Director at any general meeting, may do so by sending the written notice together with other relevant documents in relation to the said proposal ("Nomination Documents") to the head office or at the registration office of the Company. The period of lodgment of such written notice shall commence on or after the day after the despatch of the notice of general meeting appointed for such election and ending no later than 7 days prior to the date of such general meeting. The minimum length of such notice period shall be at least 7 days.

The shareholders may send the Nomination Documents to the following principal place of business of the Company in Hong Kong:

The Company Secretary
SMI Corporation Limited
Suite 6701-2 & 13, 67/F
The Centre
99 Queen's Road Central
Central, Hong Kong

The Nomination Documents includes:

(1) Notice of intention regarding the proposal by the shareholder;

(2) Consent in writing to be elected as Director of the Company by the nominated candidate;

(3) Biography of the nominated candidate; and

(4) Any other relevant information of the proposal.

Independent Auditor's Report

RSM
Audit • Tax • Advisory

29th Floor
Caroline Centre
Lee Gardens Two
28 Yun Ping Road
Causeway Bay
Hong Kong

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 33 to 99, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other 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 audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of the affairs of the Group as at 31 December 2013, 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

31 March 2014

Consolidated Statement of Profit or Loss

For the year ended 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
Turnover	6	**1,452,369**	911,707
Revenue	6	**1,417,684**	857,205
Cost of sales		**(521,803)**	(378,862)
Gross profit		**895,881**	478,343
Other income	8	**56,936**	45,965
Gain/(loss) on disposal of held-for-trading investments		**4,012**	(4,459)
Selling and marketing expenses		**(529,914)**	(381,096)
Administrative expenses		**(94,730)**	(84,254)
Other operating expenses	9	**(7,062)**	(525)
Profit from operations		**325,123**	53,974
Finance costs	10	**(57,872)**	(15,673)
Gain on disposal of joint ventures		**154**	–
Share of profits and losses of associates		**(13,951)**	157
Share of profits of joint ventures		**1,616**	3,118
Impairment loss on investments in associates		**(61,600)**	–
Equity-settled share-based payments		**(20,874)**	–
Profit before tax		**172,596**	41,576
Income tax expense	11	**(56,878)**	(21,263)
Profit for the year	12	**115,718**	20,313
Attributable to:			
Owners of the Company		**112,973**	30,875
Non-controlling interests		**2,745**	(10,562)
		115,718	20,313
Earnings per share	16		
Basic		**HK1.38 cents**	HK0.38 cents
Diluted		**HK1.38 cents**	HK0.38 cents

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2013

	2013 HK$'000	2012 HK$'000
Profit for the year	**115,718**	20,313
Other comprehensive income:		
Item that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	**16,543**	3,362
Other comprehensive income for the year, net of tax	**16,543**	3,362
Total comprehensive income for the year	**132,261**	23,675
Attributable to:		
Owners of the Company	**122,111**	32,803
Non-controlling interests	**10,150**	(9,128)
	132,261	23,675

Consolidated Statement of Financial Position

At 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
Non-current assets			
Property, plant and equipment	17	**1,284,053**	941,227
Goodwill	18	**1,421,706**	1,421,706
Intangible assets	19	**129,257**	220,749
Investments in associates	20	**184,233**	16,705
Investments in joint ventures	21	**–**	79,228
Available-for-sale financial assets	22	**23,020**	23,020
Rental deposits		**28,486**	28,171
Prepayments for construction of cinemas	23	**823,732**	383,151
		3,894,487	3,113,957
Current assets			
Inventories	24	**45,341**	21,671
Trade and other receivables	25	**512,953**	269,984
Convertible notes designated as financial assets at fair value through profit or loss	26	**–**	25,442
Current tax assets		**73**	–
Bank and cash balances	27	**41,383**	68,458
		599,750	385,555
Current liabilities			
Trade and other payables	28	**784,182**	472,948
Due to associates	29	**1,672**	569
Due to related parties	30	**1,548**	821
Finance lease payables	31	**13,164**	–
Bank loans	32	**53,586**	–
Other loans	33	**63,103**	–
Convertible notes	34	**141,000**	138,216
Current tax liabilities		**68,008**	29,245
		1,126,263	641,799
Net current liabilities		**(526,513)**	(256,244)
Total assets less current liabilities		**3,367,974**	2,857,713
Non-current liabilities			
Long term bonds	35	**273,648**	245,404
Convertible notes	34	**9,934**	9,864
Finance lease payables	31	**47,093**	–
Bank loans	32	**55,121**	–
Other loans	33	**165,000**	–
Deferred income		**1,953**	761
Deferred tax liabilities	37	**5,056**	5,890
		557,805	261,919
NET ASSETS		**2,810,169**	2,595,794
Capital and reserves			
Share capital	38	**845,161**	810,161
Reserves	48	**1,890,209**	1,721,114
Equity attributable to owners of the Company		**2,735,370**	2,531,275
Non-controlling interests		**74,799**	64,519
TOTAL EQUITY		**2,810,169**	2,595,794

Approved by the Board of Directors on 31 March 2014.

Director *Director*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	Attributable to owners of the Company											
	Share capital HK$'000	Share premium HK$'000 (note 48(c)(i))	Other reserve HK$'000 (note 48(c)(ii))	Contributed surplus HK$'000 (note 48(c)(iii))	Foreign currency translation reserve HK$'000 (note 48(c)(iv))	Convertible notes reserve HK$'000	Statutory reserve HK$'000 (note 48(c)(v))	Share-based payment reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2012	810,161	1,666,517	(121,745)	31,172	11,603	12,500	29,171	7,272	51,408	2,498,059	71,657	2,569,716
Total comprehensive income for the year	–	–	–	–	1,928	–	–	–	30,875	32,803	(9,128)	23,675
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	–	1,990	1,990
Transfer to statutory reserve	–	–	–	–	–	–	4,920	–	(4,920)	–	–	–
Recognition of equity component of convertible note (note 34(b))	–	–	–	–	–	413	–	–	–	413	–	413
Changes in equity for the year	–	–	–	–	1,928	413	4,920	–	25,955	33,216	(7,138)	26,078
At 31 December 2012	810,161	1,666,517	(121,745)	31,172	13,531	12,913	34,091	7,272	77,363	2,531,275	64,519	2,595,794
At 1 January 2013	810,161	1,666,517	(121,745)	31,172	13,531	12,913	34,091	7,272	77,363	2,531,275	64,519	2,595,794
Total comprehensive income for the year	–	–	–	–	9,138	–	–	–	112,973	122,111	10,150	132,261
Issue of shares by placement (note 38 (a))	35,000	26,110	–	–	–	–	–	–	–	61,110	–	61,110
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	–	130	130
Recognition of share options lapsed	–	–	–	–	–	–	–	(7,272)	7,272	–	–	–
Share-based payments	–	–	–	–	–	–	–	20,874	–	20,874	–	20,874
Transfer to statutory reserve	–	–	–	–	–	–	10,309	–	(10,309)	–	–	–
Changes in equity for the year	35,000	26,110	–	–	9,138	–	10,309	13,602	109,936	204,095	10,280	214,375
At 31 December 2013	845,161	1,692,627	(121,745)	31,172	22,669	12,913	44,400	20,874	187,299	2,735,370	74,799	2,810,169

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	2013 HK$'000	2012 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**172,596**	41,576
Adjustments for:		
Interest expenses	**47,854**	15,673
Financial charges in respect of finance lease obligations	**4,268**	–
Interest income	**(509)**	(1,054)
Amortisation of lease contracts	**3,343**	3,565
Amortisation of prepaid building lease rights	**1,117**	1,075
Amortisation of investments in film production	**90,110**	39,224
Depreciation	**123,209**	81,609
Share of profits and losses of associates	**13,951**	(157)
Share of profits of joint ventures	**(1,616)**	(3,118)
Increase in fair value of held-for-trading investments	**–**	(13,855)
Increase in fair value of convertible notes designated as financial assets at fair value through profit or loss	**(5,231)**	(3,742)
Dividend income from held-for-trading investments	**(200)**	(1,313)
Gain on disposal of held-for-trading investment	**(4,012)**	–
Gain on disposal of joint ventures	**(154)**	–
Loss on disposal of property, plant and equipment	**50**	355
Equity-settled share-based payments	**20,874**	–
Impairment loss on property, plant and equipment	**1,263**	–
Impairment loss on investments in associates	**61,600**	–
Impairment loss on trade and other receivables	**2,532**	170
Prepaid building lease rights written off	**3,217**	–
Operating profit before working capital changes	**534,262**	160,008
(Increase)/decrease in inventories	**(23,670)**	1,550
Increase in rental deposits	**(315)**	(9,696)
Increase in trade and other receivables	**(176,913)**	(55,626)
Additional cost incurred in investments in film production	**(6,295)**	(68,920)
Return in investments in film production	**–**	17,985
Dividend income from held-for-trading investments	**200**	1,313
Decrease in held-for-trading investments	**–**	58,961
Increase/(decrease) in deferred income	**1,192**	(948)
Increase in trade and other payables	**295,076**	171,560
Cash generated from operations	**623,537**	276,187
Income taxes paid	**(20,318)**	(23,708)
Income taxes refund	**–**	58
Finance lease charges paid	**(4,268)**	–
Net cash generated from operating activities	**598,951**	252,537

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	2013 HK$'000	2012 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(370,928)**	(145,720)
Net prepayments for construction of cinemas	**(440,581)**	(383,151)
Investments in associates	**(243,017)**	–
Increase in amounts due to associates	**1,103**	190
Proceeds from disposal of held-for-trading investments	**34,685**	–
Proceeds from disposal of property, plant and equipment	**4,928**	10,045
Proceeds from disposal of joint ventures	**10,000**	–
Net deposits refund for investments	**–**	7,462
Interest received	**509**	1,054
Net cash used in investing activities	**(1,003,301)**	(510,120)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares by placement	**61,110**	–
Proceeds from issue of long term bonds	**20,000**	244,989
Proceeds from issue of convertible notes	**–**	10,250
Net receipts from other loans	**228,103**	–
Proceeds from bank loans raised	**108,707**	–
Advance from non-controlling interests of subsidiaries	**7,035**	29,325
Capital contribution from non-controlling interests	**130**	1,990
Repayment of finance lease payables	**(10,952)**	–
Advance from/(repayment to) related parties	**727**	(1)
Interest paid	**(32,203)**	(861)
Net cash generated from financing activities	**382,657**	285,692
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(21,693)**	28,109
Effect of foreign exchange rate changes	**(5,382)**	(4,946)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**68,458**	45,295
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**41,383**	68,458
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	**41,383**	68,458

Notes to the Financial Statements

For the year ended 31 December 2013

1. GENERAL INFORMATION

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

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 47 to the financial statements.

In the opinion of the Directors of the Company, as at 31 December 2013, Mr. QIN Hui is the controlling party of the Company.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised International Financial Reporting Standards ("IFRSs") that are relevant to its operations and effective for its accounting year beginning on 1 January 2013. 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, presentation of the Group's financial statements and amounts reported for the current year and prior years except as stated below.

(a) Amendments to IAS 1 "Presentation of Financial Statements"

Amendments to IAS 1 titled Presentation of Items of Other Comprehensive Income introduce new optional terminology for statement of comprehensive income and income statement. Under the amendments to IAS 1 that the Group adopted, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements.

The amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the change. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

(b) IFRS 12 "Disclosure of Interests in Other Entities"

IFRS 12 "Disclosure of Interests in Other Entities" specifies the disclosure requirements for subsidiaries, joint arrangements and associates, and introduces new disclosure requirements for unconsolidated structured entities.

The adoption of IFRS 12 only affects the disclosures relating to the Group's subsidiaries, associates and joint arrangements in the consolidated financial statements. IFRS 12 has been applied retrospectively.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

(c) IFRS 13 "Fair Value Measurement"

IFRS 13 "Fair Value Measurement" establishes a single source of guidance for all fair value measurements required or permitted by IFRSs. It clarifies the definition of fair value as an exit price, which is defined as a price at which an orderly transaction to sell the asset or transfer the liability would take place between market participants at the measurement date under market conditions, and enhances disclosures about fair value measurements.

The adoption of IFRS 13 only affects disclosures on fair value measurements in the consolidated financial statements. IFRS 13 has been applied prospectively.

The Group has not applied the new IFRSs that have been issued but are not yet effective. The Directors anticipated that the new standards, amendments and interpretations will be adopted in the Group's consolidated financial statements when they become effective. The Group has already commenced an assessment of the impact of these new IFRSs but is not yet in a position to state whether these new IFRSs would have a material impact on its results of operations and the financial position.

3. 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.

These financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain financial instruments, which are carried at their fair values.

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 their judgement 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. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i,e, activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

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 profit or loss and consolidated statement of profit or loss and other 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.

In the Company's statement of financial position, the investments in subsidiaries are stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Business combination and goodwill (Continued)

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 (ad) 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 policy decisions 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, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

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 other comprehensive income is recognised in the consolidated other comprehensive income. 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.

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) its carrying amount plus any related accumulated foreign currency translation reserve. If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

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.

In the Company's statement of financial position, the investments in associates are stated at cost less allowance for impairment losses. The result of associates are accounted for by the Company on the basis of dividends received and receivable.

3. **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(d) **Joint arrangements**

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Relevant activities are activities that significantly affect the returns of the arrangement. When assessing joint control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

A joint arrangement is either a joint operation or a joint venture. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Investment in a joint venture is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the joint venture 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 joint venture'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 a joint venture's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in other comprehensive income is recognised in the consolidated other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture. If the joint venture 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 joint venture 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 joint venture and (ii) its carrying amount plus any related accumulated foreign currency translation reserve. If an investment in a joint venture becomes an investment in an associate, the Group continues to apply the equity method and does not remeasure the retained interest.

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

In the Company's statement of financial position, the investments in joint ventures are stated at cost less allowance for impairment losses. The results of joint ventures are accounted for by the Company on the basis of dividends received and receivable.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(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 are translated at average exchange rates for the period (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

Building comprises the cinema premise of the Group. All 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:

Building	5%
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 methods 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Leases

The Group as lessee

(i) Operating leases

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) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. At the commencement of the lease term, a finance lease is capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the statement of financial position as finance lease payable. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets under finance leases are depreciated the same as owned assets over their estimated useful lives.

The Group as lessor

(i) Operating leases

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 recognised on a straight-line basis over the term of the relevant lease.

(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.

(j) Lease contracts

Lease contracts are the fair value of the difference between the market rent and the minimum lease payment of the lease contracts held by the acquired companies at the date of acquisition. Lease contracts are stated at cost less accumulated amortisaton. Amortisaton is calculated on a straight-line basis over the remaining lease terms of the corresponding lease contracts.

3. **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(k) Investments in film production

Investments in film production are stated at cost less accumulated amortisation 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; 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.

(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 when they are held principally for the purpose of selling or repurchasing in the near future (trading assets) 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 incorporate any dividend or interest earned, 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. Dividends, foreign exchange gain or loss for debt instruments and interest calculated using the effective interest method are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Investments (Continued)

(ii) Available-for-sale financial assets (Continued)

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be realiably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, are measured at cost less impairment losses.

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 instruments can be objectively related to an event occurring after the recognition of the impairment loss.

(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) Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair value and are subsequently measured at the higher of:

- the amount of the obligations under the contracts, as determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and

- the amount initially recognised less cumulative amortisation recognised in profit or loss on a straight-line basis over the terms of the guarantee contracts.

(t) 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 that 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 at amortised cost using the effective interest method until extinguished on conversion or redemption.

Transaction costs are apportioned between the liability and equity components of the convertible loans based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly to equity.

(u) 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.

(v) Equity instruments

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

(w) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Income from box office ticketing is recognised when the services are rendered.

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

Income from sales of food and beverage and other goods is recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Revenue recognition (Continued)

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 receivable.

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

Interest income from a financial asset is recognised on a time-proportion basis using the effective interest method.

Dividend income is recognised when the shareholders' rights to receive payment are established.

(x) 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 at the earlier of the dates when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs and involves the payment of termination benefits.

(y) 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 the 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 received or if the fair value of the services received 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 is recognised as an expense.

3. **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(z) **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.

(aa) **Government grants**

Government grants that become receivable for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

(ab) **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, it includes items that were not taxable or deductible in previous 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, associates, and 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ab) Taxation (Continued)

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.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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.

(ac) Related parties

A related party is a person or entity that is related to the Group.

(A) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Company or of a parent of the Company.

(B) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (A).

(vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

3. **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(ad) Impairment of assets

Intangible assets that have an indefinite useful life or that are 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 other assets except goodwill, 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 of disposal 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.

(ae) 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.

(af) 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

In preparing its consolidated financial statements, the Group has made significant judgements, estimates and assumptions that impact on the carrying value of certain assets and liabilities, income and expenses as well as other information reported in the notes. The Group periodically monitors such estimates and assumptions and makes sure they incorporate all relevant information available at the date when financial statements are prepared. However, this does not prevent actual figures differing from estimates.

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below).

(a) Consolidation of entity of less than 50% equity interest

Although the Group owns less than 50% of the equity interest in several companies as shown in note 47 to the financial statements, they are treated as subsidiaries because the Group is able to control the relevant activities of these subsidiaries after considering in substance all facts and circumstances.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(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 as 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. At 31 December 2013, the carrying amount of the convertible notes is HK$Nil (2012: HK$25,442,000).

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES (Continued)

Key sources of estimation uncertainty (Continued)

(c) Asset impairment tests

A financial asset or a group of financial assets, other than those categorised at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Impairment exists only when the Group ascertains that a "loss event" affecting the estimated future cash flows of the financial asset has occurred. It may not be possible to identify a single, discrete event that caused the impairment, and moreover to determine when a loss event has occurred might involve the exercise of significant judgement.

The amount of impairment loss recognised for financial assets carried at amortised cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

With regard to equity investments categorised as available-for-sale, the Group considers those assets to be impaired when there has been a significant or prolonged decline in the fair value below cost. The determination of what is "significant" or "prolonged" requires significant judgement.

The impairment analysis of goodwill and tangible and other intangible assets requires an estimation of the value in use of the asset or the cash-generating unit to which the assets are allocated. Estimation of the value in use is primarily based on discounted cash flow models which require the Group to make an estimate of the expected future cash flows from the asset or the cash-generating unit and also to choose an appropriate discount rate in order to calculate the present value of the cash flows.

(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) Income taxes

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES (Continued)

Key sources of estimation uncertainty (Continued)

(f) Share-based payments

Share-based payments are measured at grant date fair value. For share options granted to employees, in many cases market prices are not available and therefore the fair value of the options granted shall be estimated by applying an option pricing model. Option pricing models need input data such as expected volatility of the share price, expected dividends or the risk-free interest rate for the life of the option. The overall objective is to approximate the expectations that would be reflected in a current market or negotiated exchange price for the option. Such assumptions are subject to judgements and may turn out to be significantly different than expected.

Fair value determined at the grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. The estimate of the number of equity instruments expected to vest is revised by the Group at the end of each reporting period through settlement. Revisions of the original estimates, if any, is recognised in profit or loss so that the cumulative expense includes the revised estimate, with the corresponding adjustment to the reserve for employee equity-settled benefits.

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 monitors 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 and investments included in the consolidated 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.

In order to minimise the credit risk, the Group reviews the recoverable amount of each individual's receivables 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 41% (2012: 76%) of the total trade receivables were due from the Group's five largest customers.

The credit risk on cash and bank balances is limited because the majority of the counterparties are reputable banks registered in the People's Republic of China (the "PRC") and Hong Kong.

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

	On demand/ Less than 1 years HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000
At 31 December 2013				
Trade and other payables	**574,560**	**–**	**–**	**–**
Due to associates	**1,672**	**–**	**–**	**–**
Due to related parties	**1,548**	**–**	**–**	**–**
Other loans	**83,497**	**165,000**	**–**	**–**
Bank loans	**60,115**	**33,657**	**25,016**	**–**
Convertible notes	**141,865**	**512**	**11,118**	**–**
Long term bonds	**25,299**	**272,979**	**3,000**	**21,941**
Finance lease payables	**17,312**	**17,312**	**36,660**	**–**
At 31 December 2012				
Trade and other payables	240,462	–	–	–
Due to associates	569	–	–	–
Due to related parties	821	–	–	–
Convertible notes	142,218	513	11,618	–
Long term bonds	23,628	23,628	264,473	–

(d) **Interest rate risk**

The Group's exposure to changes in interest rate risk is mainly attributable to its bank deposits and bank borrowings. These bank deposits and borrowings bear interests at variable interest rates and 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 2013, 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 approximately HK$579,000 higher (2012: HK$554,000 lower) arising mainly as a result of lower interest expenses on bank borrowings. 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 approximately HK$579,000 lower (2012: HK$554,000 higher) arising mainly as a result of higher interest expenses on bank borrowings.

(e) **Price risk**

The Group was exposed to equity price risk in last year through its investments in convertible notes designated as financial assets at fair value through profit or loss ("financial assets at FVTPL"). No such risk exposure of the Group exists after the conversion of all the convertible notes designated as financial assets at FVTPL.

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

(f) **Categories of financial instruments at 31 December 2013**

	2013 HK$'000	2012 HK$'000
Financial assets		
Financial assets at fair value through profit or loss:		
– Convertible notes designated as financial assets at FVTPL	–	25,442
Available-for-sale financial assets	23,020	23,020
Loans and receivables (including cash and cash equivalents)	218,289	215,104
Financial liabilities		
Financial liabilities at amortised cost	1,339,172	635,336

6. **TURNOVER AND REVENUE**

The Group's turnover which represents the amounts received and receivable from theater operation, in-theater counter sales and online shopping, return from investments in film production and distribution, dividend income and trading of equity securities during the year are as follows:

	2013 HK$'000	2012 HK$'000
Theater operation	1,204,005	729,799
In-theater counter sales and online shopping	48,184	44,629
Investments in film production and distribution	163,281	71,376
Dividend income from held-for-trading investments	200	1,313
Proceeds from held-for-trading investments	34,685	54,502
Others	2,014	10,088
	1,452,369	911,707

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

	2013 HK$'000	2012 HK$'000
Theater operation	1,204,005	729,799
In-theater counter sales and online shopping	48,184	44,629
Investments in film production and distribution	163,281	71,376
Dividend income from held-for-trading investments	200	1,313
Others	2,014	10,088
	1,417,684	857,205

7. **SEGMENT INFORMATION**

The four reportable segments of the Group are as follows:

(a) Theater operation – box office income, advertising income, facilities rental income, membership service income and sales of food and beverage

(b) In-theater counter sales and online shopping – sales of goods through in-theater counter and online website

(c) Investments in film production and distribution – investments in production and distribution of films

(d) Securities trading – trading of marketable securities

7. **SEGMENT INFORMATION (Continued)**

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

The Group's other operating segments includes the operating and management business which earns agency income, dividend income from investments and trading business which earn profit from goods sold. None of these segments meets any of the quantitative thresholds for determining reportable segments. The information of these other operating segments is included in the "others" column.

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

Information about reportable segments' revenue, profit or loss, assets and liabilities:

	Theater operation HK$'000	In-theater counter sales and online shopping HK$'000	Investments in film production and distribution HK$'000	Securities trading HK$'000	Others HK$'000	Total HK$'000
Year ended 31 December 2013						
Revenue from external customers	1,204,005	48,184	163,281	200	2,014	1,417,684
Segment profit/(loss)	182,538	2,599	77,742	4,212	(74,625)	192,466
Interest income	146	4	–	–	–	150
Interest expense	(31,664)	–	–	–	(7)	(31,671)
Depreciation and amortisation	(126,803)	(233)	(90,110)	–	(318)	(217,464)
Other material items of income and expense:						
Share of profits and losses of associates	396	–	–	–	(14,347)	(13,951)
Share of profits of joint ventures	–	–	–	–	1,616	1,616
Income tax expense	(56,012)	(866)	–	–	–	(56,878)
Other material non-cash items:						
Impairment loss on trade and other receivables, net	(211)	–	–	–	(2,321)	(2,532)
Impairment loss on investments in associates	–	–	–	–	(61,600)	(61,600)
Additions to segment non-current assets	811,230	594	6,295	–	243,017	1,061,136
As at 31 December 2013						
Segment assets	4,121,609	74,835	107,965	8,123	171,505	4,484,037
Segment liabilities	(1,144,768)	(36,764)	(4,818)	–	(77,256)	(1,263,606)
Investments in associates	17,163	–	–	–	167,070	184,233

7. SEGMENT INFORMATION (Continued)

	Theater operation HK$'000	In-theater counter sales and online shopping HK$'000	Investments in film production and distribution HK$'000	Securities trading HK$'000	Others HK$'000	Total HK$'000
Year ended 31 December 2012						
Revenue from external customers	729,799	44,629	71,376	1,313	10,088	857,205
Segment profit	3,802	1,369	31,061	9,707	4,231	50,170
Interest income	152	1	–	–	–	153
Interest expense	(8,316)	–	–	(744)	–	(9,060)
Depreciation and amortisation	(84,207)	(105)	(39,224)	–	–	(123,536)
Other material items of income and expense:						
Share of profits of associates	157	–	–	–	–	157
Share of profits of joint ventures	–	–	–	–	3,118	3,118
Income tax expense	(20,820)	(443)	–	–	–	(21,263)
Other material non-cash items:						
Impairment loss on other receivables, net	(170)	–	–	–	–	(170)
Additions to segment non-current assets	537,007	420	68,920	–	1,140	607,487
As at 31 December 2012						
Segment assets	3,165,065	12,930	202,873	150	80,635	3,461,653
Segment liabilities	(739,884)	(3,644)	(3,965)	–	(447)	(747,940)
Investments in associates	16,705	–	–	–	–	16,705
Investments in joint ventures	–	–	–	–	79,228	79,228

Notes:

(a) Revenue reported above represents revenue generated from external customers. There are no inter-segment sales for the year ended 31 December 2013 (2012: HK$Nil).

(b) Segment result of theater operation includes share of profits of associates from related theater operation.

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

	2013 HK$'000	2012 HK$'000
Revenue		
Total revenue of reportable segments	**1,417,684**	857,205
Profit or loss		
Total profit of reportable segments	**192,466**	50,170
Other income	**2,455**	1,069
Unallocated amounts:		
Increase in fair value of convertible notes designated as financial assets at FVTPL	**5,231**	3,742
Unallocated finance costs	**(26,201)**	(6,613)
Corporate expenses	**(58,233)**	(28,055)
Consolidated profit for the year	**115,718**	20,313

7. SEGMENT INFORMATION (Continued)

	2013 HK$'000	2012 HK$'000
Assets		
Total assets of reportable segments	**4,484,037**	3,461,653
Convertible notes designated as financial assets at FVTPL	**–**	25,442
Unallocated headquarter amounts:		
Property, plant and equipment	**16**	331
Trade and other receivables	**9,653**	11,701
Bank and cash balances	**531**	385
Consolidated total assets	**4,494,237**	3,499,512
Liabilities		
Total liabilities of reportable segments	**1,263,606**	747,940
Due to related parties	**1,548**	821
Convertible notes	**150,934**	148,080
Unallocated headquarters amounts:		
Other liabilities	**267,980**	6,877
Consolidated total liabilities	**1,684,068**	903,718

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 external customers and information about its non-current assets by geographical location of assets are detailed below:

	Revenue		Non-current assets	
	2013 **HK$'000**	2012 HK$'000	**2013** **HK$'000**	2012 HK$'000
Hong Kong	**2,214**	28,478	**1,094**	1,727
PRC except Hong Kong	**1,415,470**	828,727	**3,870,373**	3,089,210
Consolidated total	**1,417,684**	857,205	**3,871,467**	3,090,937

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

Revenue from major customers:

There are no major customers contributing over 10% of the Group's revenue for the year ended 31 December 2013 (2012: Nil).

8. OTHER INCOME

	2013 HK$'000	2012 HK$'000
Interest income	**150**	153
Coupon interest income from convertible notes designated as financial assets at FVTPL	**359**	901
Increase in fair value of convertible notes designated as financial assets at FVTPL	**5,231**	3,742
Increase in fair value of held-for-trading investments	**–**	13,855
Net exchange gain	**16,473**	4,458
Government grants (note (a))	**25,533**	12,087
Government interest subsidies (note (b))	**5,681**	–
Waiver of other payables	**–**	10,755
Others	**3,509**	14
	56,936	45,965

Note:

(a) Government grants mainly represented the refund of the contributions to the National Film Development Trust（國家電影事業發展專項資金）.

(b) Government interest subsidies represented the subsidies from the Government on the loans obtained by PRC companies in Beijing.

9. OTHER OPERATING EXPENSES

	2013 HK$'000	2012 HK$'000
Impairment loss on trade and other receivables, net	**2,532**	170
Impairment loss on property, plant and equipment	**1,263**	–
Loss on disposal of property, plant and equipment	**50**	355
Prepaid building lease rights written off	**3,217**	–
	7,062	525

10. FINANCE COSTS

	2013 HK$'000	2012 HK$'000
Interest on borrowings wholly repayable within five years:		
– long term bonds	**25,250**	8,203
– convertible notes	**3,719**	6,609
– bank loans	**2,123**	–
– other loans	**12,191**	–
– securities margin facilities	**4,483**	744
– bank overdraft	**29**	117
Interest on long term bonds not wholly repayable within five years	**59**	–
Finance charges	**5,750**	–
Finance lease charges	**4,268**	–
	57,872	15,673

11. INCOME TAX EXPENSE

	2013 HK$'000	2012 HK$'000
Current tax – Hong Kong Profits Tax	–	–
Current tax – PRC Enterprise Income Tax		
Provision for the year	58,819	23,242
Over provision in prior year, net	(1,107)	(3,609)
	57,712	19,633
Deferred tax (note 37)	(834)	1,630
	56,878	21,263

No provision for Hong Kong Profits Tax is required since the Group has sufficient tax losses brought forward or no assessable profit for the year ended 31 December 2013 (2012: HK$Nil).

For the PRC subsidiaries of the Group, the provision for PRC Enterprise Income Tax is based on a statutory rate of 25% (2012: 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 charges 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.

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

	2013 HK$'000	2012 HK$'000
Profit before taxation (excluding share of profits and losses of associates and share of profits of joint ventures)	184,931	38,301
Tax at the applicable income tax rate of 16.5% (2012: 16.5%)	30,514	6,320
Tax effect of expenses not deductible for tax purposes	28,458	8,466
Tax effect of income not taxable for tax purposes	(24,017)	(10,954)
Tax effect of unrecognised tax losses	9,422	14,810
Tax effect on utilisation of tax losses not previously recognised	(8,639)	(1,708)
Tax effect of tax holidays/tax concession	–	7
Under provision in prior years	594	1,206
Over provision in prior years	(1,701)	(4,815)
Effect of different tax rates of subsidiaries operating in other jurisdictions	21,990	7,768
Tax effect of temporary differences not recognised	52	212
Tax effect of current year tax loss not recognised	205	(49)
Income tax expense	56,878	21,263

12. PROFIT FOR THE YEAR

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

	2013 HK$'000	2012 HK$'000
Amortisation of lease contracts (included in selling and marketing expenses)	**3,343**	3,565
Amortisation of prepaid building lease rights (included in selling and marketing expenses)	**1,117**	1,075
Amortisation of investments in film production	**90,110**	39,224
Auditor's remuneration		
– current	**3,012**	2,503
– under provision in prior year	**–**	296
	3,012	2,799
Cost of services provided	**372,580**	270,799
Cost of inventories sold	**59,113**	68,839
Impairment loss on trade and other receivables, net	**2,532**	170
Impairment loss on investments in associates	**61,600**	–
Directors' emoluments (note 13)	**8,272**	4,209
Depreciation on property, plant and equipment	**123,209**	81,609
Prepaid building lease rights written off	**3,217**	–
Net exchange gain	**(16,473)**	(4,458)
Operating lease charges of land and buildings		
– minimum lease payments	**127,679**	83,744
– contingent rent	**18,312**	17,126
	145,991	100,870
Staff costs excluding directors' emoluments		
– salaries, bonus and allowances	**122,890**	96,659
– equity-settled share-based payments	**4,245**	–
– retirement benefit scheme contributions	**28,133**	22,683
	155,268	119,342
Equity-settled share-based payments paid to consultants	**12,286**	–

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments of each director were as follows:

	Director fees HK$'000	Salaries, bonus and allowances HK$'000	Equity-settled share-based payments HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
Name of director					
Executive directors					
Mr. CHENG Chi Chung	**1,818**	**–**	**1,213**	**–**	**3,031**
Mr. WONG Kui Shing, Danny	**1,200**	**–**	**2,143**	**15**	**3,358**
Mr. YANG Rongbing (note (a))	**333**	**–**	**606**	**–**	**939**
Mr. LEE Chee Chuang, Roger (note (a))	**87**	**–**	**–**	**–**	**87**
Mr. QIN Hong (note (b))	**5**	**–**	**–**	**–**	**5**
Mr. HU Yidong (note (c))	**41**	**–**	**–**	**–**	**41**
Independent non-executive directors					
Mr. HE Peigang	**132**	**–**	**152**	**–**	**284**
Mr. PANG Hong	**132**	**–**	**152**	**–**	**284**
Mr. LI Fusheng (note (d))	**30**	**–**	**–**	**–**	**30**
Mr. CHAN Sek Nin, Jackey (note (e))	**136**	**–**	**77**	**–**	**213**
Total for 2013	**3,914**	**–**	**4,343**	**15**	**8,272**
Name of director					
Executive directors					
Mr. CHENG Chi Chung	1,766	–	–	–	1,766
Mr. WONG Kui Shing, Danny	1,200	–	–	16	1,216
Mr. QIN Hong (note (b))	720	–	–	–	720
Mr. HU Yidong (note (c))	120	–	–	–	120
Independent non-executive directors					
Mr. HE Peigang	129	–	–	–	129
Mr. PANG Hong	129	–	–	–	129
Mr. CHAN Sek Nin, Jackey (note (e))	129	–	–	–	129
Total for 2012	4,193	–	–	16	4,209

Notes:

(a) appointed on 3 May 2013

(b) resigned on 17 January 2013

(c) resigned on 3 May 2013

(d) appointed on 10 October 2013

(e) resigned on 10 October 2013

During the year, there was no arrangement under which a director waived or agreed to waive any emoluments during the year (2012: Nil).

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

The five highest paid individuals in the Group during the year included three (2012: three) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining two (2012: two) individuals are set out below:

	2013 HK$'000	2012 HK$'000
Salaries, bonus and allowances	**1,766**	1,203
Retirement benefit scheme contributions	**30**	28
	1,796	1,231

The emoluments fell within the following bands:

	Number of individuals 2013	2012
Nil to HK$1,000,000	**1**	2
HK$1,000,001 to HK$1,500,000	**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.

14. RETIREMENT BENEFIT SCHEME

The Company's subsidiaries in the PRC, in compliance with the applicable regulations of the PRC, participated in retirement benefit schemes 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 2013 amounted to approximately HK$27,987,000 (2012: HK$22,563,000).

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 2013. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated statement of profit or loss 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 2013 amounted to approximately HK$161,000 (2012: HK$136,000).

15. DIVIDEND

A final dividend of HK0.41 cents (2012: Nil) per ordinary share for the year ended 31 December 2013 amounting to approximately HK$34,652,000 (2012: HK$Nil) have been proposed by the Directors and are subject to approval by the shareholders in the forthcoming Annual General Meeting. This final dividend has not been included as a liability in the consolidated financial statement,

16. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the following:

	2013 HK$'000	2012 HK$'000
Earnings		
Earnings for the purpose of calculating basic and diluted earnings per share	**112,973**	30,875
Number of shares		
Issued ordinary shares at beginning of year	**8,101,606,688**	8,101,606,688
Effect of new shares issued by placement	**73,835,616**	–
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**8,175,442,304**	8,101,606,688
Effect of dilutive potential ordinary shares arising from share options	**1,322,242**	–
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**8,176,764,546**	8,101,606,688

The effects of dilutive potential ordinary shares arising from convertible notes outstanding are not included in calculating the diluted earnings per share as they had an anti-dilutive effect on the basic earnings per share for the year ended 31 December 2013 and 2012.

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17. PROPERTY, PLANT AND EQUIPMENT

	Building situated outside Hong Kong HK$'000	Leasehold improvements HK$'000	Operation equipment HK$'000	Electronic equipment HK$'000	Broadcasting equipment HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost								
At 1 January 2012	–	546,554	54,397	7,887	152,553	6,979	3,338	771,708
Reclassification	–	2,744	(4,038)	(39)	1,103	230	–	–
Additions	–	190,408	29,204	6,691	75,318	797	3,342	305,760
Disposal	–	(10,918)	(626)	(25)	(1,397)	(22)	(1,082)	(14,070)
Exchange differences	–	6,454	681	129	2,034	27	28	9,353
At 31 December 2012 and 1 January 2013	–	735,242	79,618	14,643	229,611	8,011	5,626	1,072,751
Reclassification	–	1,208	(34)	302	(1,624)	148	–	–
Additions	34,291	268,251	21,772	3,262	109,889	4,672	–	442,137
Disposal	–	(23)	(1,413)	(11)	(6,492)	–	–	(7,939)
Exchange differences	445	23,784	2,460	445	8,062	150	103	35,449
At 31 December 2013	34,736	1,028,462	102,403	18,641	339,446	12,981	5,729	1,542,398
Accumulated depreciation and impairment loss								
At 1 January 2012	–	23,682	7,797	2,011	11,904	5,568	1,380	52,342
Reclassification	–	–	97	(19)	(101)	23	–	–
Charge for the year	–	44,121	12,553	3,208	20,382	637	708	81,609
Disposal	–	(2,798)	(472)	(5)	(4)	(7)	(384)	(3,670)
Exchange differences	–	624	193	38	353	26	9	1,243
At 31 December 2012 and 1 January 2013	–	65,629	20,168	5,233	32,534	6,247	1,713	131,524
Reclassification	–	–	108	2	(108)	(2)	–	–
Charge for the year	1,646	66,317	18,813	3,865	30,569	1,111	888	123,209
Impairment loss for the year	–	1,263	–	–	–	–	–	1,263
Disposal	–	(17)	(1,329)	(11)	(1,604)	–	–	(2,961)
Exchange differences	21	2,737	836	183	679	47	807	5,310
At 31 December 2013	1,667	135,929	38,596	9,272	62,070	7,403	3,408	258,345
Carrying amount								
At 31 December 2013	33,069	892,533	63,807	9,369	277,376	5,578	2,321	1,284,053
At 31 December 2012	–	669,613	59,450	9,410	197,077	1,764	3,913	941,227

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

The carrying amount of property, plant and equipment includes an amount of approximately HK$64,926,000 (2012: HK$ Nil) in respect of assets held under finance lease obligations.

At 31 December 2013, the carrying amount of the building situated outside Hong Kong held under medium-term lease and pledged as security for the Group's bank loans amounted to HK$33,069,000 (2012: HK$ Nil).

18. GOODWILL

	2013 HK$'000	2012 HK$'000
Cost	**1,427,618**	1,427,618
Less: Accumulated impairment losses	**(5,912)**	(5,912)
Carrying amount	**1,421,706**	1,421,706

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. The carrying amount of goodwill had been allocated as follows:

	2013 HK$'000	2012 HK$'000
Film exhibition:		
Colour Asia Pacific Limited ("Colour Asia")	**15,431**	15,431
North Hollywood Limited ("North Hollywood")	**1,406,275**	1,406,275
	1,421,706	1,421,706

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.

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% (2012: 3%). The rate used to discount the cash flows forecast from the subsidiaries of Colour Asia and North Hollywood is 14.2% (2012: 15.2%).

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19. INTANGIBLE ASSETS

	Trademark (purchased) HK$'000 (Note (a))	Lease contracts (purchased) HK$'000	Prepaid building lease rights (purchased) HK$'000 (Note (b))	Investments in film production HK$'000 (Note (c))	Total HK$'000
Cost					
At 1 January 2012	25,120	31,188	40,000	180,855	277,163
Additions during the year	–	–	–	68,920	68,920
Return of investment	–	–	–	(115,799)	(115,799)
At 31 December 2012 and 1 January 2013	25,120	31,188	40,000	133,976	230,284
Additions during the year	–	–	–	6,295	6,295
Written off	–	–	(3,217)	–	(3,217)
Return of investment	–	–	–	(90,110)	(90,110)
At 31 December 2013	25,120	31,188	36,783	50,161	143,252
Accumulated amortisation and impairment losses					
At 1 January 2012	–	4,240	655	58,590	63,485
Amortisaton for the year	–	3,565	1,075	39,224	43,864
Return of investment	–	–	–	(97,814)	(97,814)
At 31 December 2012 and 1 January 2013	–	7,805	1,730	–	9,535
Amortisaton for the year	–	3,343	1,117	90,110	94,570
Return of investment	–	–	–	(90,110)	(90,110)
At 31 December 2013	–	11,148	2,847	–	13,995
Carrying amount					
At 31 December 2013	25,120	20,040	33,936	50,161	129,257
At 31 December 2012	25,120	23,383	38,270	133,976	220,749

Notes:

(a) **Trademark**

The trademark, PhotonVFX, was originally owned by Photon Group. The principal 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 that the Group will 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 support the view that this trademark-PhotonVFX 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 2013 based on the value in use calculations performed in 2012 as there were no significant change in the methodology and input in the calculation and the recoverable amount exceed the carrying amount by a substantial margin. Such trademark has been allocated to the business segment of "Investments in film production and distribution".

The value in use calculations performed used cash flow projections based on financial budgets approved by management covering a period of five years. The rate used to discount the cash flows forecast is approximately 19.3% at 31 December 2012. The assumptions used are based on management's past experience of the specific market and reference to external sources of information.

19. INTANGIBLE ASSETS (Continued)

Notes: (Continued)

(b) Prepaid building lease rights

During the year ended 31 December 2010, 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 contract 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. During the year, 2 lease contracts have been cancelled with the landlord and the corresponding purchase cost are write off to profit or loss. At 31 December 2013, the legal titles of 14 (2012: 14) lease contracts out of the total of 23 lease contracts have been transferred to the Group, others are still in the name of the vendor.

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

(c) 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 to be exploited freely 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

	2013 HK$'000	2012 HK$'000
Listed investments:		
Share of net assets	228,670	–
Less: Impairment loss (note)	(61,600)	–
	167,070	–
Unlisted investments:		
Share of net assets	7,458	7,000
Goodwill	9,705	9,705
	17,163	16,705
	184,233	16,705
Fair value of listed investments in associates based on quoted market price (level 1 fair value measurement)	116,968	N/A

Note:

Since the acquisition of SMI Culture Group Holdings Limited ("SMI Culture") (formerly known as Qin Jia Yuan Media Services Company Limited) and its subsidiaries ("SMI Culture Group") in August 2013, the market value of the investment in SMI Culture Group was below the carrying amount. As a result, we performed impairment tests on the carrying amount of the interest in SMI Culture Group. The impairment test was performed by comparing the recoverable amount of SMI Culture Group determined by a value in use ("VIU") calculation, with its carrying amount. The calculation of VIU was prepared based on discounted cash flow projections which was based on management's estimates. The discount rate used was based on a cost of capital used to evaluate investments in similar type and quality as of the valuation date. Management judgement is required in estimating the future cash flows of SMI Culture Group. An impairment of approximately HK$61,600,000 is recognised in profit or loss.

20. INVESTMENTS IN ASSOCIATES (Continued)

Details of the Group's associates at 31 December 2013 are as follows:

Name	Place of incorporation/ establishment	Issued/paid up capital	Percentage of equity interest held by the Group/ profit sharing	Principal activities
星美文化集團控股有限公司 SMI Culture Group Holdings Limited	Cayman Islands	562,557,684 ordinary shares of US$0.1 each	29.70%/29.70%	Provision of media services in the PRC
廣州市華影星美影城有限公司 Guangzhou Huaying Stellar Cineplex Limited	PRC	Registered capital of RMB1,000,000	46.55%/46.55%	Operation of cinema
北京世紀東都國際影城有限公司	PRC	Registered capital of RMB1,000,000	40.85%/40.85%	Operation of cinema

The above associates are limited liability companies.

The following table shows information of an associate, SMI Culture Group, that is material to the Group and is accounted for in the consolidated financial statements using the equity method. The summarised financial information presented is based on the Hong Kong Financial Reporting Standards consolidated financial statements of SMI Culture Group.

Name	星美文化集團控股有限公司 SMI Culture Group Holdings Limited 2013
Principal place of business/country of incorporation	**PRC/Cayman Islands**
Principal activities	**Provision of media services in the PRC**
% of ownership interests/voting rights held by the Group	**29.7%/29.7%**
	HK$'000
At 31 December:	
Non-current assets	**493,056**
Current assets	**643,074**
Non-current liabilities	**(6,468)**
Current liabilities	**(277,984)**
Net assets	**851,678**
Non-controlling interests	**(2,398)**
Net assets attributable to owners	**849,280**
Group's share of net assets	**252,236**
Fair value adjustments	**(23,566)**
Group's share of carrying amount of interests	**228,670**
Year ended 31 December:	
Revenue	**191,402**
Loss after tax	**(674,341)**
Other comprehensive income	**29,675**
Total comprehensive income	**(644,666)**
Dividends received from associates	**–**

20. INVESTMENTS IN ASSOCIATES (Continued)

The following table shows, in aggregate, the Group's share of the amounts of all individually immaterial associates that are accounted for using the equity method.

	2013 HK$	2012 HK$
At 31 December:		
Carrying amounts of interests	**17,163**	16,705
Year ended 31 December:		
Profit from operations	**396**	157
Other comprehensive income	**–**	–
Total comprehensive income	**396**	157

The Group's share of associates' profit for the year includes share of associates' taxation of approximately HK$431,000 (2012: HK$157,000).

21. INVESTMENTS IN JOINT VENTURES

	2013 HK$'000	2012 HK$'000
Unlisted investments:		
Share of net assets	**–**	28,509
Goodwill	**–**	50,719
	–	79,228

On 5 September 2013, Able Charm Limited, a wholly-owned subsidiary of the company, has entered into an agreement with a former director, Mr. HU Yidong, to dispose of 50% equity interests in Top Frontier Holdings Limited, a joint venture of the Group, at a consideration of HK$81 million.

During the year, the share of profits from the joint ventures up to the date of disposal amounted to approximately HK$1,616,000 (2012: HK$3,118,000).

21. INVESTMENTS IN JOINT VENTURES (Continued)

The following amounts are the Group's share of the joint ventures that are accounted for by the equity method of accounting.

	2013 HK$'000	2012 HK$'000
At 31 December		
Current assets	–	4,492
Non-current assets	–	37,392
Current liabilities	–	(13,375)
Net assets	–	28,509

Up to the date of disposal on 5 September 2013:

	2013 HK$'000	2012 HK$'000
Turnover	18,029	38,699
Expenses	(14,797)	(32,464)

22. AVAILABLE– FOR-SALE FINANCIAL ASSETS

	2013 HK$'000	2012 HK$'000
Unlisted equity security, at cost	23,020	23,020

The Group owned 20% equity interests in a company incorporated in Hong Kong. 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 it does not have a quoted market price in an active market and its fair value cannot be reliably measured.

23. PREPAYMENTS FOR CONSTRUCTION OF CINEMAS

The Group has made agreements with certain construction companies for the supervision, administration and quality control of the construction projects of cinemas in the PRC. At 31 December 2013, the Group has prepaid approximately HK$823,732,000 (2012: HK$383,151,000) to these construction companies for the planning, design and construction work of the construction projects.

24. INVENTORIES

	2013 HK$'000	2012 HK$'000
Food and beverage	24,361	13,883
Others	20,980	7,788
	45,341	21,671

25. TRADE AND OTHER RECEIVABLES

	2013 HK$'000	2012 HK$'000
Trade receivables	**31,357**	41,344
Rental and other deposits	**275,374**	78,850
Amounts due from a non-controlling interest of subsidiary (note (a))	**17,029**	2,412
Prepayments and other receivables (note (b))	**189,193**	147,378
	512,953	269,984

Notes:

(a) The amount of approximately HK$17,029,000 (2012: HK$2,412,000) at 31 December 2013 is unsecured, interest-free and repayable on demand.

(b) At 31 December 2013, included in prepayments and other receivables are: (i) advances to independent third parties of approximately HK$36,680,000 (2012: HK$8,193,000) which are unsecured, interest-free and repayable within 1 year; and (ii) the remaining other receivables are unsecured, interest-free and repayable on demand.

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

	2013 HK$'000	2012 HK$'000
0 to 30 days	**7,778**	15,578
31 to 90 days	**12,828**	4,391
91 to 180 days	**4,894**	9,869
181 days to 1 year	**2,682**	4,094
Over 1 year	**3,175**	7,412
	31,357	41,344

At 31 December 2013, trade receivables of HK$10,751,000 (2012: HK$21,375,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	2013 HK$'000	2012 HK$'000
91 to 180 days	**4,894**	9,869
181 days to 1 year	**2,682**	4,094
Over 1 year	**3,175**	7,412
	10,751	21,375

25. TRADE AND OTHER RECEIVABLES (Continued)

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

	2013 HK$'000	2012 HK$'000
Hong Kong dollars	2,521	21,524
Renminbi ("RMB")	28,836	19,820
Total	31,357	41,344

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

Impairment loss on trade and 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 trade and other receivable balance directly.

The movement in the impairment loss of trade and other receivables is as follows:

	2013 HK$'000	2012 HK$'000
Balance at the beginning of the year	709	535
Impairment loss recognised	2,532	695
Reversal of impairment loss	–	(525)
Written off of receivables	–	(3)
Exchange differences	22	7
Balance at the end of the year	3,263	709

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

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

	2013 HK$'000	2012 HK$'000
Convertible notes designated as financial assets at fair value through profit or loss	–	25,442

On 2 November 2009, the Group acquired 5% coupon rate convertible notes, with the maturity date on 2 November 2011 and principal amount of HK$18,000,000 issued by ITC Corporation Limited ("ITC") (Stock Code: 372), whose shares are listed on the main board of the Hong Kong Stock Exchange. The convertible notes can be converted, in amount 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 the conversion price are set out in the announcement 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.

26. CONVERTIBLE NOTES DESIGNATED AS FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

On 29 September 2011, ITC approved the extension of the maturity date of the convertible notes from 2 November 2011 to 2 November 2013. The conversion price and all the other terms and conditions of the convertible notes remain unchanged. No early redemption is allowed. Further details regarding the extension of the maturity date of the convertible notes are set out in the announcement and circular of ITC dated 26 August 2011 and 12 September 2011 respectively.

During the year, the entire convertible notes in the principal amount of HK$18,000,000 were converted into 60,000,000 ordinary shares of ITC (2012: HK$Nil) and the shares have been disposed of during the year.

A fair value gain of approximately HK$5,231,000 before conversion (2012: HK$3,742,000) was recorded for the year ended 31 December 2013.

27. BANK AND CASH BALANCES

At 31 December 2013, the bank and cash balances of the Group denominated in RMB amounted to HK$32,391,000 (2012: HK$67,660,000). 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.

28. TRADE AND OTHER PAYABLES

	2013 **HK$'000**	2012 HK$'000
Trade payables	**200,288**	77,606
Customers' deposits and receipts in advance	**209,622**	232,486
Long term bonds interests payable	**8,159**	7,876
Other loans interests payable	**2,511**	–
PRC business and other tax payables	**18,319**	8,280
Amount due to a non-controlling interest of subsidiaries (note (a))	**14,874**	10,250
Margin payable due to financial institution (note (b))	**75,731**	–
Accrued charges and other payables	**254,678**	136,450
	784,182	472,948

Notes:

(a) The amount of approximately HK$14,874,000 (2012: HK$10,250,000) at 31 December 2013 is unsecured, interest-free and repayable on demand.

(b) The margin payable due to financial institution was secured and repayable on demand. The interest was charged at 12% per annum.

28. TRADE AND OTHER PAYABLES (Continued)

The average credit period on purchases of goods is 30 to 60 days. The aging analysis of the Group's trade payables based on the invoice date at the end of the reporting period is as follows:

	2013 HK$'000	2012 HK$'000
0 to 30 days	**30,884**	33,962
31 to 60 days	**84,249**	25,695
Over 60 days	**85,155**	17,949
	200,288	77,606

The carrying amounts of the Group's trade payables are all denominated in RMB.

29. DUE TO ASSOCIATES

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

30. DUE TO RELATED PARTIES

	2013 HK$'000	2012 HK$'000
Mr. QIN Hui (note (a))	**167**	730
Strategic Media International Limited ("SMIL") (note (b))	**1,381**	91
	1,548	821

Notes:

(a) Mr. QIN Hui is the controlling shareholder of the Company.

(b) Mr. QIN Hui has significant influence over SMIL.

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

31. FINANCE LEASE PAYABLES

	Minimum lease payments		Present value of minimum lease payments	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases:				
Within one year	**17,312**	–	**13,164**	–
In the second to fifth years, inclusive	**53,972**	–	**47,093**	–
	71,284	–	**60,257**	–
Less: Future finance charges	**(11,027)**	–	**N/A**	N/A
Present value of finance lease obligations	**60,257**	–		
Less: Amounts due for settlement within one year (shown under current liabilities)			**(13,164)**	–
Amounts due for settlement after one year			**47,093**	–

It is the Group's practice to lease certain of its broadcasting equipments under finance leases. The lease term is usually 10 years. At 31 December 2013, the average effective borrowing rate was 6.9% (2012: Nil) per annum. Interest rates are fixed at the contract date and thus expose the Group to fair value interest rate risk. The above lease obligations only include basic lease payments, and do not include the contingent rental amounts, 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 to calculate the amount of such additional rental.

All finance lease payables are denominated in RMB.

The Group's finance lease obligations are secured by the lessor's title to the leased assets.

32. BANK LOANS

	2013 HK$'000	2012 HK$'000
Bank loans, secured, with principal amount of:		
– RMB25 million (note (a))	31,973	–
– RMB60 million (note (b))	76,734	–
	108,707	–

The bank loans are repayable as follows:

	2013 HK$'000	2012 HK$'000
Within one year	53,586	–
In the second year	30,847	–
In the third to fifth years, inclusive	24,274	–
	108,707	–
Less: amount due for settlement within one year (shown under current liabilities)	(53,586)	–
Amount due for settlement after one year	55,121	–

All bank loans are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

(a) Bank loan of approximately HK$31,973,000 (2012: Nil) is wholly repayable within one year and secured by the Group's building situated outside Hong Kong. The bank loan is arranged at floating rate with average interest rate of 9.0% (2012: Nil) per annum as at 31 December 2013.

(b) Bank loans of approximately HK$76,734,000 (2012: Nil) are wholly repayable within three years and secured by personal guarantee given by Mr. QIN Hong, a former director and chairman of the Company, and the equity interest of the subsidiaries held by the Group, 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.), 北京名翔國際影院管理有限公司(Beijing Mingxiang International Cinema Mgt Co., Ltd.), 北京世界城星美國際影城管理有限公司(Beijing Shijiecheng Stellar Cineplex Management Co., Ltd.) and 北京望京星美國際影城管理有限公司(Beijing Wangjing Stellar International Cinema Mgt Co., Ltd.). These bank loans are arranged at floating rate with average interest rate of 6.7% (2012: Nil) per annum as at 31 December 2013.

33. OTHER LOANS

	2013 HK$'000	2012 HK$'000
Repayable on demand or within one year (shown under current liabilities), with principal amount of:		
– HK$12 million (note (a))	5,000	–
– HK$50 million (note (b))	38,103	–
– HK$20 million (note (c))	20,000	–
	63,103	–
Repayable over one year.		
– HK$165 million (note (d))	165,000	–
	228,103	–

33. OTHER LOANS (Continued)

Notes:

(a) In March 2013, the Group entered into a loan agreement for a principal amount of HK$12,000,000 with an independent third party. The loan was interest bearing at 3% per month and was repayable on 2 April 2013. The loan was originally secured by convertible notes designated as financial assets at FVTPL and the pledge was discharged in August 2013.

The repayment date of the loan was extended to 28 February 2014. The loan was fully settled subsequent to the end of the reporting period.

(b) In April 2013, the Group entered into a project management contract ("PM Contract") with a construction company, an independent third party. Pursuant to the PM Contract, the construction company will provide management services to the Group in relation to the construction of seven cinemas in the PRC as specified in the PM Contract. The management service fee is charged at 20% of total borrowings drawn by the Group as stated below.

The construction company will make borrowings with a maximum amount of HK$50 million to the Group for the settlement of construction costs incurred. The borrowings are unsecured and interest bearing at 1.5% per month.

The loan would be fully repayable on 30 September 2014. Since 1 December 2013 the loan interest is increased to 3.0% per month.

(c) In December 2013, the Group entered into a loan agreement with a financial institution, Emperor Finance Limited. The loan are interest bearing at 2% per month, unsecured and repayable in April 2014. The loan was fully settled subsequent to the end of the reporting period.

(d) From September to November 2013, the Group entered into several loan agreements with an independent third party. The loans are interest bearing at 5% per annum, unsecured and repayable after 31 December 2014.

34. CONVERTIBLE NOTES

	2013 HK$'000	2012 HK$'000
Convertible notes with principal amount of:		
– HK$141 million (note (a))	**141,000**	138,216
– HK$10.25 million (note (b))	**9,934**	9,864
	150,934	148,080
Analysed as:		
Current liabilities	**141,000**	138,216
Non-current liabilities	**9,934**	9,864
	150,934	148,080

34. CONVERTIBLE NOTES (Continued)

Notes:

(a) The Company issued a 2-year 0.25% convertible note ("Convertible Note") with principal amount of HK$141,000,000 on 27 May 2011 to Mr. QIN Hui. The Convertible Note is denominated in Hong Kong dollars and entitle the holder to convert it into ordinary shares of the Company at any business day after the date of issue of the Convertible Note up to and including the date which is 7 business days prior to the maturity date on 27 May 2013 at a conversion price of HK$0.47. If the 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% per annum will be payable semi-annually.

On 25 June 2013, a special general meeting was passed for the approval of the extension of the maturity date of Convertible Note from 27 May 2013 to 27 May 2014. The conversion price and all the other terms and conditions of Convertible Note remain unchanged. No early redemption is allowed.

The Convertible Note contains two components, liability and equity element. The equity element is presented in equity as convertible notes reserve. The revised effective interest rate of the liability component is 0.25%.

The Directors estimate the fair value of the liability component at 31 December 2013 to be approximately HK$141,000,000 (2012: HK$138,200,000). This fair value has been calculated by discounting the future cash flows at the market rate (level 2 fair value measurement).

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

	HK$'000
Nominal value of Convertible Note issued	141,000
Equity component	(12,500)
Liability components at date of issue	128,500
Interest charged	3,855
Interest paid	(211)
Liability component at 31 December 2011	132,144
Interest charged	6,425
Interest paid	(353)
Liability component at 31 December 2012	138,216
Interest charged	3,136
Interest paid	(352)
Liability component at 31 December 2013	141,000

34. CONVERTIBLE NOTES (Continued)

Notes: (Continued)

(b) The Company issued several 5-year 5% convertible notes ("Convertible Notes II") with principal amount totalling HK$10,250,000 on 11 September 2012 to certain independent third party investors. The Convertible Notes II are denominated in Hong Kong dollars and entitle the holders to convert them into ordinary shares of the Company at any business day after the date of issue of the Convertible Notes II up to and including the date which is 7 business days prior to the maturity date on 10 September 2017 at a conversion price of HK$1.00 per share. If the Convertible Notes II have not been converted, they will be redeemed at 100% of their principal amount on the maturity date. No early redemption is allowed. Interest of 5.0% per annum will be payable annually on the last business day of each calendar year.

The Convertible Notes II 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 5.9%.

The Directors estimate the fair value of the liability component at 31 December 2013 to be approximately HK$9,900,000 (2012: HK$9,800,000). This fair value has been calculated by discounting the future cash flows at the market rate (level 2 fair value measurement).

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

	HK$'000
Nominal value of Convertible Notes II issued	10,250
Equity component	(413)
Liability components at date of issue	9,837
Interest charged	184
Interest paid	(157)
Liability component at 31 December 2012	9,864
Interest charged	583
Interest paid	(513)
Liability component at 31 December 2013	9,934

35. LONG TERM BONDS

	2013 HK$'000	2012 HK$'000
Long-term bonds consist of:		
– SMEs Private Placement Bonds (note (a))	**253,648**	245,404
– 7-year 5% bonds (note (b))	**20,000**	–
	273,648	245,404

Notes:

(a) Pursuant to the 上海證券交易所中小企業私募債券業務指引（試行）(Tentative Measures for SMEs Private Placement Bonds*), the Joint Issuers are classified as micro, small and medium sized enterprises which conform to the stipulations in the "Notice on Issuing Provisions on Classification Standards for Small and Medium-sized Enterprises" (No. 300 [2011] of the Ministry of Industry and Information Technology) and are therefore eligible to issue private placement bonds to qualified investors.

The SMEs Private Placement Bonds (the "SMEs Private Placement Bonds") has been arranged and underwritten by 首創證券有限責任公司, a qualified financial institution approved by the Securities Association of China. The SMEs Private Placement Bonds will only be transferred to qualified investors solely through the Shanghai Stock Exchange Comprehensive Electronic Platform of Fixed Income Securities（上海證券交易所固定收益綜合電子平台）. The SEMs Private Placement Bonds are issued by four PRC subsidiaries of the Group, 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.*), 天津星美影城管理有限公司 (Tianjin Stellar Cineplex Management Co., Ltd.*), 北京名翔國際影院管理有限公司 (Beijing Mingxiang International Cinema Management Co., Ltd.*), and北京望京星美國際影城管理有限公司 (Beijing Wangjing Stellar International Cinema Management Co., Ltd.*) ("Joint Issuers") on 30 August 2012 with par value of RMB100 each totaling RMB200 million (equivalent to approximately HK$242 million).

The SMEs Private Placement Bonds are of 3-year term but may be redeemed in whole on the date falling on the second financial year from the date of issue of the SMEs Private Placement Bonds at the option of the Joint Issuers (the "Redemption Option"). Upon exercise of such redemption option by the Joint Issuers, the date falling at the end of the second financial year from the date of issue of the SMEs Private Placement Bonds, will be taken as the maturity date of the entire outstanding SMEs Private Placement Bonds. On the other hand, the holders of the SMEs Private Placement Bonds may, at their own option, on the date of the interest payment for the second year, sell the whole or part of their SMEs Private Placement Bonds back to the Joint Issuers. The SMEs Private Placement Bonds carry interest at a rate of 9.5% per annum payable at the end of each financial year of the date of issue of the SMEs Private Placement Bonds. The effective interest rate of the SMEs Private Placement Bonds is 10.37%.

At 31 December 2013, the fair value of the SMEs Private Placement Bonds is estimated to be approximately RMB210,896,000 (2012: RMB213,378,000) (equivalent to approximately HK$269,715,000 (2012: HK$265,357,000)). The fair value is derived from discounted future cash flows using bond interest rate with similar terms of 8% per annum (level 2 fair value measurement).

The Company, Mr. QIN Hui and several subsidiaries have issued joint guarantees to the underwriter at a maximum amount of RMB200 million (equivalent to approximately HK$242 million) in respect of the issuance of the SMEs Private Placement Bonds.

The Directors consider raising fund by issuing the SMEs Private Placement Bonds will enhance the Group's working capital and strengthen its capital base and financial position for expending the Group's channel chain and brand building, enhancing new complementary businesses and improving the operation standard of the Group with an aim to becoming a leading integrated entertainment and media company.

Details of the issue of the SMEs Private Placement Bonds are disclosed in the announcement and supplemental announcement of the Company dated 25 July 2012 and 26 July 2012 respectively.

(b) In December 2013, the Company issued two 7-year 5% bonds with principal amount of HK$10,000,000 each to certain independent third party investors. The effective interest rate of the bonds is 5%.

* *For identification only*

36. PLEDGE OF ASSETS

(a) At 31 December 2013, the Group's investments in associates amounted to approximately HK$167,070,000 (2012: HK$ Nil) were pledged to secure margin account facilities granted to the Group.

(b) At 31 December 2013, the Group's building situated outside Hong Kong amounted to approximately HK$33,069,000 (2012: HK$ Nil) was pledged to secure a bank loan granted to the Group as mentioned in note 32(a).

(c) At 31 December 2013, the equity interests of certain subsidiaries held by the Group were pledged to secured bank loans granted to the Group, as mentioned in note 32(b).

37. DEFERRED TAX

(a) The following are the deferred tax liabilities 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 2012	91	615	1,464	(6,737)	307	(4,260)
(Charge)/credit to profit or loss for the year	(91)	(615)	(1,464)	847	(307)	(1,630)
At 31 December 2012 and 1 January 2013	–	–	–	(5,890)	–	(5,890)
Credit to profit or loss for the year	–	–	–	834	–	834
At 31 December 2013	**–**	**–**	**–**	**(5,056)**	**–**	**(5,056)**

(b) At the end of the reporting period, the Group has unused tax losses of approximately HK$148,565,000 (2012: HK$144,733,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$118,788,000 (2012: HK$88,315,000) that will expire within 5 years. Other tax losses may be carried forward indefinitely.

(c) At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries, associates and joint ventures for which deferred tax liabilities have not been recognised is approximately HK$26,397,000 (2012: HK$17,507,000). 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.

38. SHARE CAPITAL

	Number of shares		Amount	
	2013	2012	**2013**	2012
			HK$'000	HK$'000
Authorised:				
Ordinary shares of HK$0.1 each				
At beginning of year and end of year	**20,000,000,000**	20,000,000,000	**2,000,000**	2,000,000
Issued and fully paid:				
Ordinary shares of HK$0.1 each				
At beginning of year	**8,101,606,688**	8,101,606,688	**810,161**	810,161
Issue of shares by placement (note (a))	**350,000,000**	–	**35,000**	–
At end of year	**8,451,606,688**	8,101,606,688	**845,161**	810,161

Notes:

(a) On 13 September 2013, the Company and Placing Agent, Emperor Securities Limited, entered into a placing agreement in respect of the placement of 350,000,000 ordinary shares of HK$0.1 each to independent investors at a price of HK$0.18 per share. The placement was completed on 16 October 2013 and the premium on the issue of shares, amounting to HK$26,110,000, net of share issue expenses of HK$1,890,000, was credited to the Company's share premium account.

(b) Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year (2012: Nil).

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. At 31 December 2013, 27.88% (2012: 25.18%) of the shares were in public hands.

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 share option scheme ("Share Option Scheme") and termination of the operation of the old share option scheme. The resolution was approved by the shareholders and the Share Option Scheme became effective for a period of 10 years commencing on 30 September 2009.

Under the 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's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange'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 Share Option Scheme were summarised and set out in a circular to shareholders dated 9 September 2009.

Share Option I

During the year ended 31 December 2010, a total number of 546,126,507 share options were granted to directors, senior management and consultants 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 May 2010 – 2 May 2011	HK$0.57	209,975,500
June 2010 (Lot A)	11 June 2010	11 June 2010 – 10 June 2013	HK$0.51	139,075,507
June 2010 (Lot B)	11 June 2010	11 June 2010 – 10 June 2011	HK$0.51	197,075,500

Options granted to consultants were incentives for helping the Group expand its business network, acquire 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.

139,075,507 share options granted on 11 June 2010 were lapsed during the year. The corresponding equity-settled share-based expenses previously recognised in share-based payment reserve were transferred to retained profits.

39. SHARE-BASED PAYMENT (Continued)

Equity-settled share option scheme (Continued)

Share Option II

During the year ended 31 December 2013, a total number of 535,000,000 share options 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
July 2013 (Lot A)	19 July 2013	19 July 2013 – 18 July 2016	HK$0.18	311,666,666
July 2013 (Lot B)	19 July 2013	19 July 2014 – 18 July 2016	HK$0.18	111,666,667
July 2013 (Lot C)	19 July 2013	19 July 2015 – 18 July 2016	HK$0.18	111,666,667

Options granted to consultants were incentives for helping the Group expand its business network, acquire 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 the share options granted.

No share option was exercised or lapsed during the year.

The fair value of the options granted is estimated at the date of grant using binomial 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 2013 was estimated on the date of grant using the following assumptions:

	July 2013 (Lot A)	July 2013 (Lot B)	July 2013 (Lot C)
Date of grant	19 July 2013	19 July 2013	19 July 2013
Dividend yield (%)	Nil	Nil	Nil
Expected volatility (%)	53.554	53.554	53.554
Risk-free interest rate (%)	0.517	0.517	0.517
Expected life (years)	3	2	1
Weighted average share price	0.165	0.165	0.165

40. ACQUISITION OF AN ASSOCIATE

In August 2013, the Group acquired 29.7% of the issued share capital of SMI Culture Group Holdings Limited ("SMI Culture") (formerly known as Qin Jia Yuan Media Services Company Limited) (Stock Code: 2366) for a cash consideration of HK$243,017,000. SMI Culture and its subsidiaries ("SMI Culture Group") were engaged in provision of media services in the PRC during the year.

The fair value of the identifiable assets and liabilities of SMI Culture Group acquired as at its date of acquisition is as follows:

Net assets acquired:	HK$'000
Property, plant and equipment	40,274
Intangible assets	341,168
Goodwill	21,076
Other non-current assets	19,495
Trade receivables and other receivables	318,730
Inventories	472,245
Bank and cash balances	13,984
Trade and other payables	(308,482)
Current tax liabilities	(10,247)
Bank loan	(73,010)
Short-term loan	(10,161)
Deferred tax liabilities	(6,832)
	818,240
Fair value of 29.7% equity interests in SMI Culture	243,017
Satisfied by:	
Total consideration transferred – Cash	243,017
Net cash outflow arising on acquisition:	
Cash consideration paid	243,017

The fair value of the acquired identifiable assets and liabilities were valued by Stern Appraisals Limited, an independent qualified professional valuer. The valuation of the properties was arrived at using the direct comparison method by making reference to prices realized on actual sales and/or asking prices of comparable properties (level 3 fair value measurement). In addition, the valuation of intangible assets was arrived at using the income approach by applying an excess cash flow method. The expected cash flow of the intangible assets which are based on management's estimates were discounted by the weighted average cost of capital (level 3 fair value measurement).

The Group's share of loss of SMI Culture Group for the period between the date of acquisition and the end of the reporting period amounted to approximately HK$14,347,000.

If the acquisition had been completed on 1 January 2013, total Group's loss for the year would have been approximately HK$70,214,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2013, nor is intended to be a projection of future results.

41. LEASE COMMITMENTS

At 31 December 2013, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2013 HK$'000	2012 HK$'000
Within one year	**334,000**	212,000
In the second to fifth years inclusive	**1,492,000**	1,183,000
After five years	**3,558,000**	3,391,000
	5,384,000	4,786,000

Operating lease payments represent rentals payable by the Group for its office, staff quarters and warehouses in Hong Kong and the office, a residential club house and certain cinema premises in the PRC.

The leases 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 to calculate the amount of such additional rental.

42. OTHER COMMITMENTS

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

		2013 HK$'000	2012 HK$'000
(a)	Amount contracted but not provided for in the consolidated financial statements in respect of:		
	Investments in film production	**7,843**	14,053
	Construction of cinema premises	**490,989**	364,150
	Consultancy fee expenses	**4,485**	6,279
(b)	Capital expenditure authorised but not contract for in respect of:		
	Construction of cinema premises	**1,886,730**	1,043,625
	Purchase of leasehold properties	**–**	37,308

43. CONTINGENT LIABILITIES

Up to the date of this report, there are certain disputes which arise from time to time in the ordinary course of the operation of theaters. The Group is in the course of processing these matters. While it is in an early stage of those disputes, the Directors of the Company are of the view that these disputes will not have a material adverse impact on the financial statements of the Group.

At 31 December 2013, the Group and the Company did not have any other significant contingent liabilities.

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) During the year, the key management personnel compensation paid by the Group was disclosed in note 13 to the financial statements.

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2013 HK$'000	2012 HK$'000
Non-current assets			
Investments in subsidiaries	47	**295,637**	295,647
Available-for-sale financial assets		**23,020**	23,020
		318,657	318,667
Current assets			
Prepayments, deposits and other receivables		**7,768**	2,952
Due from subsidiaries	47	**2,410,231**	2,112,774
Bank and cash balances		**70**	17
		2,418,069	2,115,743
Current liabilities			
Trade and other payables		**20,314**	5,910
Due to related parties		**1,548**	821
Due to subsidiaries	47	**60**	1,303
Financial guarantee contracts liabilities	46	**4,933**	12,333
Other short term loans		**63,103**	–
Convertible notes		**141,000**	138,216
		230,958	158,583
Net current assets		**2,187,111**	1,957,160
Total assets less current liabilities		**2,505,768**	2,275,827
Non-current liabilities			
Convertible notes		**9,934**	9,864
Long term bonds		**20,000**	–
Other loan		**165,000**	–
		194,934	9,864
NET ASSETS		**2,310,834**	2,265,963
Capital and reserves			
Share capital	38	**845,161**	810,161
Reserves	48	**1,465,673**	1,455,802
TOTAL EQUITY		**2,310,834**	2,265,963

46. FINANCIAL GUARANTEE CONTRACTS LIABILITIES

	Company	
	2013	2012
	HK$'000	HK$'000
Financial guarantee contracts	**4,933**	12,333

The Company, Mr. QIN Hui and several subsidiaries (the "Guarantors") have issued a guarantee of RMB200 million (equivalent to approximately HK$242 million) to an underwriter in respect of the issue of the SMEs Private Placement Bonds by four subsidiaries. Financial guarantee contracts liabilities represents the fair value of the financial guarantees provided by the Company at the inception of the SMEs Private Placement Bonds. At the end of the reporting period, the maximum liability of the Guarantors under the guarantee is the outstanding amount of the SMEs Private Placement Bonds which amounted to approximately HK$253,648,000 (2012: HK$245,404,000).

47. INVESTMENTS IN SUBSIDIARIES

	Company	
	2013	2012
	HK$'000	HK$'000
Unlisted investments, at cost	**24,878**	24,888
Amounts due from subsidiaries not expected to be recovered within one year	**270,759**	270,759
	295,637	295,647

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

47. INVESTMENTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries as at 31 December 2013 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued/ paid up 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 shares 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 Cineplex Management Co., Ltd. (note) 北京回龍觀星美國際影城管理有限公司	PRC	Registered capital of RMB6,000,000	–	#49%	100%	Operation of cinema
*Beijing Mingxiang International Cinema Mgt Co., Ltd. (note) 北京名翔國際影院管理有限公司	PRC	Registered capital of RMB7,000,000	–	72.86%	100%	Operation of cinema
*Beijing Shijiecheng Stellar Cineplex Management Co., Ltd. (note) 北京世界城星美國際影城管理有限公司	PRC	Registered capital of RMB6,000,000	–	#49%	100%	Operation of cinema
*Beijing Wangjing Stellar International Cinema Mgt Co., Ltd. (note) 北京望京星美國際影城管理有限公司	PRC	Registered capital of RMB7,500,000	–	60%	100%	Operation of cinema
Bravissimi Films (International) Limited	BVI	1 ordinary share of US$1 each	100%	–	100%	Investment in production of film
Campbell Hall Limited	BVI	3 ordinary shares of US$1 each	–	100%	100%	Investment holding
Chengdu Stellar Cineplex Limited 成都星美影業發展有限公司	PRC	Registered capital of RMB10,000,000	–	57%	57%	Operation of cinema
*Chongqing Stellar Cinema Management Co., Ltd. (note) 重慶星美影院管理有限公司	PRC	Registered capital of RMB6,000,000	–	#49%	100%	Operation of 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
*Lanzhou Stellar Cineplex Limited (note) 蘭州星美影城管理有限公司	PRC	Registered capital of RMB6,000,000	–	#49%	100%	Operation of cinema

47. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ establishment	Issued/ paid up 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
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 Cineplex Management Co., Ltd. (note) 上海星美樂莫影院管理有限公司	PRC	Registered capital of RMB6,000,000	–	75%	100%	Operation of cinema
*Shanghai Stellar Cineplex Management Co., Ltd. (note) 上海星美影院管理有限公司	PRC	Registered capital of RMB12,000,000	–	75%	100%	Operation of cinema
*Shenyang Stellar Cineplex Management Co., Ltd. (note) 瀋陽星美影城管理有限公司	PRC	Registered capital of RMB6,000,000	–	#49%	100%	Operation of cinema
SMI International Cinemas Limited	HK	10,000 ordinary shares of HK$1 each	–	100%	100%	Investment holding
SMI Investment (HK) Limited	HK	1 ordinary share of HK$1 each	100%	–	100%	Investment in securities
SMI Management (Beijing) Limited	HK	1 ordinary share of HK$1 each	–	100%	100%	Provision of administrative services
SMI Management (HK) Limited	HK	1 ordinary share of HK$1 each	–	100%	100%	Provision of administrative services
SMI Photon (HK) 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
*Tianjin Stellar Cineplex Management Co., Ltd. (note) 天津星美影城管理有限公司	PRC	Registered capital of RMB6,000,000	–	#49%	100%	Operation of cinema
*Xuzhou Stellar Cineplex Management Co., Ltd. (note) 徐州星美影院管理有限公司	PRC	Registered capital of RMB6,000,000	–	#49%	100%	Operation of cinema

47. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ establishment	Issued/ paid up capital	Percentage of equity interest held by the Company Directly	Indirectly	Percentage of profit sharing	Principal activities
Beijing Xingmeihui Catering Mgt Co., Ltd. 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
Beijing Zhong Xingmeihui Trading Co., Ltd. 北京中星美滙商貿有限公司	PRC	Registered capital of RMB10,000,000	–	100%	100%	Operation of In-theater counter sales and online shopping
Beijing Stellar Jincheng International Advertising Co., Ltd. 北京星美今晟國際廣告有限公司	PRC	Registered capital of RMB10,000,000	–	76%	76%	Provision of advertising and public relation services
Changshou Stellar Cineplex Mgt Co., Ltd. 常熟市星美影院管理有限公司	PRC	Registered capital of RMB1,000,000	–	95%	95%	Operation of cinema
Shanghai Jinshan Baibei Cineplex Mgt Co., Ltd. 上海金山星美百倍影院管理有限公司	PRC	Registered capital of RMB6,000,000	–	75%	100%	Operation of cinema
Shenyang Dayue Stellar Mgt Co., Ltd. 沈陽大悦星美企業管理有限公司	PRC	Registered capital of RMB1,000,000	–	95%	95%	Operation of cinema
Hohhot Stellar International Cineplex Mgt Co., Ltd. 呼和浩特星美國際影院管理有限公司	PRC	Registered capital of RMB1,000,000	–	95%	95%	Operation of cinema
Kunming Stellar Enterprise Mgt Co., Ltd. 昆明星美企業管理有限公司	PRC	Registered capital of RMB1,000,000	–	95%	95%	Operation of cinema
Nanjing Wending Stellar Cineplex Mgt Co., Ltd. 南京星美文鼎影院管理有限公司	PRC	Registered capital of RMB1,000,000	–	95%	95%	Operation of cinema
Qingdao Yangguang Stellar Cineplex Mgt Co., Ltd. 青島陽光星美影院管理有限公司	PRC	Registered capital of RMB1,000,000	–	95%	95%	Operation of cinema
Beijing Yangguang Stellar International Cineplex Mgt Co., Ltd. 北京陽光星美國際影院管理有限公司	PRC	Registered capital of RMB1,000,000	–	95%	95%	Operation of cinema
Chengdu Jiana Stellar Cineplex Mgt Co., Ltd. 成都戛納星美影城管理有限公司	PRC	Registered capital of RMB1,000,000	–	95%	95%	Operation of cinema
Nanchang Stellar Cineplex Mgt Co., Ltd. 南昌市星美影院管理有限公司	PRC	Registered capital of RMB1,000,000	–	95%	95%	Operation of cinema

47. INVESTMENTS IN SUBSIDIARIES (Continued)

The Directors are of opinion that, notwithstanding holding less than half of the voting rights of these companies, having considered in substance all facts and circumstances the Group has control over these companies.

* These subsidiaries are sino-foreign equity joint ventures 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 2013 and 2012 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 2013 and 2012. Pursuant to the profit entitlement agreements, the Group is entitled to 90% or 95% of the respective profit after tax from 1 January 2013 onwards of the relevant subsidiaries. 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.

The following table shows information of a subsidiary that have non-controlling interests ("NCI") material to the Group. The summarised financial information represents amounts before inter-company eliminations.

	2013	2012
Name	**Beijing Huilongguan Stellar Cineplex Management Co., Ltd. 北京回龍觀星美國際影城管理有限公司**	
Principal place of business/country of incorporation	PRC/PRC	
% of ownership interests/voting rights held by NCI	**49%/49%**	49%/49%
	HK$'000	HK$'000
At 31 December:		
Non-current assets	**11,216**	151,426
Current assets	**265,560**	81,460
Non-current liabilities	**(101,566)**	(88,648)
Current liabilities	**(24,846)**	(14,728)
Net assets	**150,364**	129,510
Accumulated NCI	**14,765**	3,960
Year ended 31 December:		
Revenue	**53,129**	76,494
Profit	**20,653**	8,420
Total comprehensive income	**16,958**	5,656
Profit allocated to NCI	**(1,987)**	(518)
Dividends paid to NCI	**–**	–
Net cash used in operating activities	**(155,392)**	(84,688)
Net cash generated from/(used in) investing activities	**142,020**	(1,015)
Net cash generated from financing activities	**12,789**	85,746
Net (decrease)/increase in cash and cash equivalents	**(583)**	43

48. RESERVES

(a) Group

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

(b) Company

	Share premium HK$'000	Other reserve HK$'000	Contributed surplus HK$'000	Convertible notes reserve HK$'000	Share-based payment reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2012	1,666,517	(36,615)	36,003	12,500	7,272	(221,888)	1,463,789
Loss for the year	–	–	–	–	–	(8,400)	(8,400)
Recognition of equity component of convertible notes (note 34(b))	–	–	–	413	–	–	413
At 1 December 2012	1,666,517	(36,615)	36,003	12,913	7,272	(230,288)	1,455,802
At 1 January 2013	1,666,517	(36,615)	36,003	12,913	7,272	(230,288)	1,455,802
Loss for the year	–	–	–	–	–	(37,113)	(37,113)
Issue of shares by placement (note 38)	26,110	–	–	–	–	–	26,110
Recognition of share options lapsed	–	–	–	–	(7,272)	7,272	–
Share-based payments	–	–	–	–	20,874	–	20,874
At 31 December 2013	1,692,627	(36,615)	36,003	12,913	20,874	(260,129)	1,465,673

(c) Nature and purpose of reserves

(i) Share premium

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

(ii) Other reserve

(i) The difference between the fair value of the 843,500,000 ordinary shares issued for the acquisition of the entire equity interest in Colour Asia Pacific Limited and the issued and fully paid up amount of such ordinary shares in 2009;

(ii) The consideration for the additional economic interests of two principal subsidiaries (Further details of the transactions are set out in the circular of the Company dated 18 January 2011).

(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. RESERVES (Continued)

(c) Nature and purpose of reserves (Continued)

(iv) 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.

(v) 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.

49. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The disclosures of fair value measurements as shown above use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

The Directors consider that the carrying amounts of the financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

50. EVENTS AFTER THE REPORTING PERIOD

On 3 January 2014, the Company was noticed by China Merchants Bank Co., Ltd., Beijing East Third Middle Road Sub-Branch (the "CMB") that CMB has granted a 3-year pre-approved credit line (specific terms and conditions of one-off credit are subject to separate approval) up to RMB300 million (the "Pre-approved Loan Facilities"). The Board believes that the Pre-approved Loan Facilities can further enhance the Group's ability to invest and construct new cinemas of the Group.

On 17 January 2014, the Company entered into a subscription agreement (the "Subscription Agreement") with Wise Vanguard Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and wholly owned by Dr. Yeung Sau Shing, Albert ("Wise Vanguard"). Pursuant to the Subscription Agreement, Wise Vanguard has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue a total of 550,000,000 shares at HK$0.21 per share. The net proceeds from the subscription of approximately HK$111.8 million are intended to be used for general working capital requirements and repayment of liabilities. The subscription was completed on 7 February 2014.

50. EVENTS AFTER THE REPORTING PERIOD (Continued)

On 14 February 2014, Beijing Zhong Xingmeihui Trading Co., Ltd., a wholly-owned subsidiary of the Company, entered into a supplier cooperative agreement (the "Supplier Cooperative Agreement") with JD.com, Inc. ("JD.com"), one of the well-known online electronics and digital goods retailers in the PRC. Pursuant to the Supplier Cooperative Agreement, JD.com will provide various electronics and digital goods for sales on Xingmeihui's online shopping platform, while JD.com will provide goods and offer corresponding before and after-sales services to the customers of Xingmeihui.

On 20 February 2014, the Best Fame Holdings Limited, a direct wholly-owned subsidiary of the Company, entered into a non-legally binding memorandum of understanding with Golden Fruit Limited, an independent third party, for the acquisition of certain equity interest (not less than 51%, but not more than 60%) and the shareholder's loan in TicketChina Holdings Limited, of which principal business is Ipiao.com ("Ipiao"), an integrated platform that provides entertainment, social and online ticketing and seat reservation services.

On 21 February 2014, a loan agreement was entered into between the Company and SMI Culture in relation to the provision of the facilities of up to HK$50,000,000 by the Company in favour of SMI Culture. The amounts drawn under the facilities shall be carried interest at 10% per annum and the principal amount and all accrued interest (if any) shall be repaid by SMI Culture in full in one lump sum on the repayment date from the third anniversary of the date of the loan agreement.

On 24 February 2014, the Company and KTB Network Company Limited ("KTB") entered into a non-legally binding memorandum of understanding (the "MOU"). Pursuant to the MOU, it is proposed that the Company will issue and KTB will subscribe for 5-year 8% coupon convertible bonds with a conversion price of HK$0.3 and an aggregate principal amount of US$10,000,000.

On 14 March 2014, the Company and KTB entered into a subscription agreement in respect of the issue of the convertible bonds in the principal amount of HK$77,643,990. Based on the initial conversion price of HK$0.3 per conversion share, a maximum number of approximately 258,813,300 conversion shares will be allotted and issued upon exercise of the conversion rights attached to the convertible bonds in full. The transaction was completed on 26 March 2014.

On 27 February 2014, the Company entered into a placing agreement (the "Placing Agreement") with Emperor Securities Limited ("Emperor Securities"). Pursuant to the Placing Agreement, Emperor Securities agreed to act as a placing agent, on a best effort basis, for the purposes of arranging not fewer than 6 placees for the issue of 1-year 8% bonds with an aggregate principal amount of up to HK$147,200,000. Warrants with an exercise price of HK$0.32 per new share (subject to adjustment) will be issued (for no additional payment) to the first registered holders of the bonds on the basis of 4,000,000 warrants for every whole multiple of HK$1,280,000 in the principal amount of the bonds taken up. The warrants are detachable from the bonds and both the warrants and the bonds can be transferred individually and separately. The transaction was completed on 27 March 2014.

51. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 31 March 2014.

Financial Summary

Results	1.4.2009- 31.12.2009 HK$'000	1.1.2010- 31.12.2010 HK$'000	1.1.2011- 31.12.2011 HK$'000	1.1.2012- 31.12.2012 HK$'000	**1.1.2013- 31.12.2013 HK$'000**
Revenue	72,029	356,637	736,317	857,205	**1,471,684**
Profit before tax	32,189	130,146	140,210	41,576	**172,596**
Income tax expense	(4,196)	(7,397)	(39,902)	(21,263)	**(56,878)**
Profit before non-controlling interests	27,993	122,749	100,308	20,313	**115,718**
Non-controlling interests	(3,991)	616	1,318	10,562	**(2,745)**
Net profit for the year/period	24,002	123,365	101,626	30,875	**112,973**

Assets and liabilities	31.12.2009 HK$'000	31.12.2010 HK$'000	31.12.2011 HK$'000	31.12.2012 HK$'000	**31.12.2013 HK$'000**
Total assets	308,222	2,681,235	3,027,797	3,499,512	**4,494,237**
Total liabilities	(108,679)	(621,480)	(458,081)	(903,718)	**(1,684,068)**
Total equity	199,543	2,059,755	2,569,716	2,595,794	**2,810,169**


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