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星美控股

SMI HOLDINGS GROUP LIMITED

星美控股集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 198)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2014**

The Board of Directors (the “Directors” or “Board”) of SMI Holdings Group Limited (the “Company”) presents the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2014 (the “Reporting Period”), together with the corresponding figures for the year ended 31 December 2013, as follows:

RESULTS HIGHLIGHTS

1. Turnover increased by 15.8% to approximately HK\$1,681 million (2013: approximately HK\$1,452 million).
2. Gross profit increased by 11.4% to approximately HK\$998 million (2013: approximately HK\$896 million).
3. Profit for the year increased by 7.8% to approximately HK\$125 million (2013: approximately HK\$116 million).
4. Basic earnings per share increased by 0.7% to HK1.39 cents (2013: HK1.38 cents).
5. The Board proposed a final dividend of HK0.37 cents per ordinary share (2013: HK0.41 cents).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2014

	Note	2014 HK\$'000	2013 HK\$'000
Turnover	3	<u>1,680,610</u>	<u>1,452,369</u>
Revenue	3	1,680,610	1,417,684
Cost of sales		<u>(683,109)</u>	<u>(521,803)</u>
Gross profit		997,501	895,881
Other income	5	206,504	56,936
Gain on disposal of held-for-trading investments		–	4,012
Selling and marketing expenses		(675,390)	(529,914)
Administrative expenses		(89,970)	(94,730)
Other operating expenses		<u>(32,223)</u>	<u>(7,062)</u>
Profit from operations		406,422	325,123
Finance costs	6	(109,872)	(57,872)
Gain on disposal of joint ventures		–	154
Share of profits and losses of associates		(142,715)	(13,951)
Share of profits of joint ventures		–	1,616
Reversal of/(Provision for) impairment loss on investments in an associate		61,600	(61,600)
Equity-settled share-based payments		<u>(6,358)</u>	<u>(20,874)</u>
Profit before tax		209,077	172,596
Income tax expense	7	<u>(83,692)</u>	<u>(56,878)</u>
Profit for the year	8	<u>125,385</u>	<u>115,718</u>
Attributable to:			
Owners of the Company		130,992	112,973
Non-controlling interests		<u>(5,607)</u>	<u>2,745</u>
		<u>125,385</u>	<u>115,718</u>
Earnings per share	9		
Basic		HK1.39 cents	HK1.38 cents
Diluted		<u>HK1.36 cents</u>	<u>HK1.38 cents</u>
Dividend – proposed final	10	<u>37,651</u>	<u>34,652</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the year	<u>125,385</u>	<u>115,718</u>
Other comprehensive income:		
<i>Item that may be reclassified to profit or loss:</i>		
Exchange differences on translating foreign operations	<u>(11,114)</u>	<u>16,543</u>
Other comprehensive income for the year, net of tax	<u>(11,114)</u>	<u>16,543</u>
Total comprehensive income for the year	<u><u>114,271</u></u>	<u><u>132,261</u></u>
Attributable to:		
Owners of the Company	124,428	122,111
Non-controlling interests	<u>(10,157)</u>	<u>10,150</u>
	<u><u>114,271</u></u>	<u><u>132,261</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	<i>Note</i>	2014 HK\$'000	2013 HK\$'000
Non-current assets			
Property, plant and equipment		1,758,077	1,284,053
Goodwill		1,454,108	1,421,706
Intangible assets		63,192	129,257
Investments in associates	11	104,013	184,233
Available-for-sale financial assets		–	23,020
Rental deposits		27,766	28,486
Prepayments for construction of cinemas		1,116,433	823,732
		4,523,589	3,894,487
Current assets			
Inventories		87,764	45,341
Trade and other receivables	12	1,171,995	512,953
Held-for-trading investment		77,577	–
Loan to an associate		50,000	–
Due from a related party		39,606	–
Current tax assets		–	73
Pledged bank deposits		25,150	–
Bank and cash balances		130,221	41,383
		1,582,313	599,750
Assets classified as held for sale		25,180	–
		1,607,493	599,750
Current liabilities			
Trade and other payables	13	1,322,875	784,182
Due to associates		1,016	1,672
Due to related parties		1,381	1,548
Finance lease payables		23,426	13,164
Bank loans		56,587	53,586
Other loans		32,000	63,103
Convertible notes		41,000	141,000
Bonds		388,561	–
Current tax liabilities		92,049	68,008
		1,958,895	1,126,263
Liabilities directly associated with assets classified as held for sale		4,088	–
		1,962,983	1,126,263

		2014	2013
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net current liabilities		<u>(355,490)</u>	<u>(526,513)</u>
Total assets less current liabilities		<u>4,168,099</u>	<u>3,367,974</u>
Non-current liabilities			
Finance lease payables		66,912	47,093
Bank loans		232,638	55,121
Other loans		–	165,000
Convertible notes		353,174	9,934
Bonds		142,995	273,648
Deferred income		2,898	1,953
Deferred tax liabilities		<u>4,305</u>	<u>5,056</u>
		<u>802,922</u>	<u>557,805</u>
NET ASSETS		<u>3,365,177</u>	<u>2,810,169</u>
Capital and reserves			
Share capital	<i>15</i>	1,017,597	845,161
Reserves		<u>2,294,819</u>	<u>1,890,209</u>
Equity attributable to owners of the Company		3,312,416	2,735,370
Non-controlling interests		<u>52,761</u>	<u>74,799</u>
TOTAL EQUITY		<u>3,365,177</u>	<u>2,810,169</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

1. GENERAL INFORMATION

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

The Company is an investment holding company. The principal activities of its subsidiaries are engaged in entertainment business relating to the operation of theaters, in-theater counter sales and online shopping and trading of securities.

In the opinion of the Directors of the Company, as at 31 December 2014, Mr. QIN Hui ("Mr. Qin") 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 2014. IFRSs comprise International Financial Reporting Standards ("IFRS"), International Accounting Standards ("IAS") and Interpretations.

(a) Application of new and revised IFRSs

The following standards have been adopted by the Group for the first time for the financial year beginning 1 January 2014:

Amendment to IAS 32, Offsetting financial assets and financial liabilities

This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Group financial statements.

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

(a) Application of new and revised IFRSs (Continued)

Amendment to IAS 36, Recoverable amount disclosures for non-financial assets

The amendments reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount based on fair value less costs of disposal is determined using a present value technique. The amendments do not have an impact on these consolidated financial statements as the recoverable amounts of assets or cash-generating units have been determined on the basis of their value in use.

Amendments to IFRS 2 (Annual Improvements to IFRSs 2010-2012 Cycle)

This amendment clarifies the definitions of “vesting condition” and “market condition” and adds definitions for “performance condition” and “service condition”. The amendment is applicable prospectively to share-based payment transactions for which the grant date is on or after 1 July 2014 and had no effect on the Group’s consolidated financial statements.

Amendments to IFRS 3 (Annual Improvements to IFRSs 2010-2012 Cycle)

This amendment, applicable prospectively to business combinations for which the acquisition date is on or after 1 July 2014, requires any contingent consideration that is classified as an asset or a liability (i.e. non-equity) to be measured at fair value at each reporting date with changes in fair value recognised in profit or loss. It had no effect on the Group’s consolidated financial statements.

Amendments to IFRS 13 (Annual Improvements to IFRSs 2010-2012 Cycle)

This amendment to the standard’s basis for conclusions only clarifies that the ability to measure certain short-term receivables and payables on an undiscounted basis is retained.

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

(b) New and revised IFRSs in issue but not yet effective

The Group has not early applied new and revised IFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2014. The directors anticipate that the new and revised IFRSs will be adopted in the Group's consolidated financial statements when they become effective. The Group is in the process of assessing, where applicable, the potential effect of all new and revised IFRSs that will be effective in future periods but is not yet in a position to state whether these new and revised IFRSs would have a material impact on its results of operations and financial position.

These include the following which may be relevant to the Group.

IFRS 9	Financial Instruments ¹
IFRS 15	Revenue from Contracts with Customers ²

¹ *Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.*

² *Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.*

(c) New Hong Kong Companies Ordinance

The requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company's first financial year commencing on or after 3 March 2014 in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant

3. TURNOVER AND REVENUE

The Group's turnover which represents the amounts received and receivable from theater operation and in-theater counter sales and online shopping during the year are as follows:

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Theater operation	1,491,544	1,204,005
In-theater counter sales and online shopping	187,545	48,184
Investments in film production and distribution	–	163,281
Dividend income from held-for-trading investments	–	200
Proceeds from held-for-trading investments	–	34,685
Others	1,521	2,014
	<u>1,680,610</u>	<u>1,452,369</u>

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

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Theater operation	1,491,544	1,204,005
In-theater counter sales and online shopping	187,545	48,184
Investments in film production and distribution	–	163,281
Dividend income from held-for-trading investments	–	200
Others	1,521	2,014
	<u>1,680,610</u>	<u>1,417,684</u>

4. 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

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, financial costs and equity-settled share-based expenses. Segment assets do not include 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.

4. SEGMENT INFORMATION (Continued)

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

	Theater operation <i>HK\$'000</i>	In-theater counter sales and online shopping <i>HK\$'000</i>	Investments in film production and distribution <i>HK\$'000</i>	Securities trading <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2014						
Revenue from external customers	1,491,544	187,545	-	-	1,521	1,680,610
Segment profit/(loss)	268,621	(3,552)	(5,995)	(70)	(105,920)	153,084
Interest income	233	18	-	-	-	251
Interest expense	(41,587)	-	-	-	-	(41,587)
Depreciation and amortisation	(148,393)	(848)	-	-	(391)	(149,632)
Other material items of income and expense:						
Share of profits and losses of associates	484	-	-	-	(143,199)	(142,715)
Income tax expense	(76,288)	-	(776)	-	(28)	(77,092)
Other material non-cash items:						
Impairment loss on trade and other receivables, net	(2,741)	(5,894)	-	-	(2,521)	(11,156)
Reversal of impairment loss on investments in an associate	-	-	-	-	61,600	61,600
Additions to segment non-current assets	896,008	1,013	-	-	34,289	931,310
As at 31 December 2014						
Segment assets	5,484,441	216,840	56,135	79,413	175,133	6,011,962
Segment liabilities	(1,542,252)	(228,382)	(4,088)	-	(104,045)	(1,878,767)
Investments in associates	17,604	-	-	-	86,409	104,013

4. SEGMENT INFORMATION (Continued)

	Theater operation <i>HK\$'000</i>	In-theater counter sales and online shopping <i>HK\$'000</i>	Investments in film production and distribution <i>HK\$'000</i>	Securities trading <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
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)
Provision for impairment loss on investments in an associate	–	–	–	–	(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

Notes:

- (a) Revenue reported above represents revenue generated from external customers. There are no inter-segment sales for the year ended 31 December 2014 (2013: HK\$Nil).
- (b) Segment result of theater operation includes share of profits of associates from related theater operation.

4. SEGMENT INFORMATION (Continued)

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

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Revenue		
Total revenue of reportable segments	<u>1,680,610</u>	<u>1,417,684</u>
Profit or loss		
Total profit of reportable segments	153,084	192,466
Other income	65,119	2,455
Unallocated amounts:		
Increase in fair value of convertible notes designated as financial assets at FVTPL	–	5,231
Unallocated finance costs	(68,285)	(26,201)
Corporate expenses	<u>(24,533)</u>	<u>(58,233)</u>
Consolidated profit for the year	<u>125,385</u>	<u>115,718</u>
	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Assets		
Total assets of reportable segments	6,011,962	4,484,037
Unallocated headquarter amounts:		
Property, plant and equipment	24	16
Trade and other receivables	95,036	9,653
Bank and cash balances	<u>24,060</u>	<u>531</u>
Consolidated total assets	<u>6,131,082</u>	<u>4,494,237</u>

4. SEGMENT INFORMATION (Continued)

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Liabilities		
Total liabilities of reportable segments	1,878,767	1,263,606
Due to related parties	1,381	1,548
Convertible notes	394,174	150,934
Bonds	431,794	–
Unallocated headquarters amounts:		
Other liabilities	<u>59,789</u>	<u>267,980</u>
Consolidated total liabilities	<u><u>2,765,905</u></u>	<u><u>1,684,068</u></u>

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	
	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Hong Kong	2,510	2,214	34,694	1,094
Taiwan	1,521	–	301	–
PRC except Hong Kong	<u>1,676,579</u>	<u>1,415,470</u>	<u>4,488,594</u>	<u>3,870,373</u>
Consolidated total	<u><u>1,680,610</u></u>	<u><u>1,417,684</u></u>	<u><u>4,523,589</u></u>	<u><u>3,871,467</u></u>

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 2014 (2013: Nil).

5. OTHER INCOME

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Interest income	2,541	150
Coupon interest income from convertible notes designated as financial assets at FVTPL	–	359
Increase in fair value of convertible notes designated as financial assets at FVTPL	–	5,231
Net exchange gain	–	16,473
Gain on disposal of investment in film production	3,745	–
Government grants (<i>note (a)</i>)	25,886	25,533
Government interest subsidies (<i>note (b)</i>)	3,016	5,681
Other rental income	1,759	–
Other advertising income	6,598	–
Waiver of amount due to a related party (<i>note (c)</i>)	18,000	–
Shareholder's subsidies (<i>note (d)</i>)	40,000	–
Priority construction rights granted to a construction company (<i>note (e)</i>)	96,000	–
Gain on disposal of available-for-sale financial assets	1,980	–
Reversal for allowance for receivables assets	997	–
Others	5,982	3,509
	<u>206,504</u>	<u>56,936</u>

Notes:

- (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.
- (c) A payable, with no fixed repayment terms, unsecured and interest-free, in the amount of HK\$18,000,000 due to a related company, a company wholly-owned by Mr. Qin, was waived by the related company.
- (d) Mr. Qin granted to the Group a subsidy in the amount of HK\$40,000,000 for the partial interest expenses incurred by the Group with no other compensation made to Mr. Qin during the year.
- (e) During the year, the Group granted a priority construction rights to a major construction company of the cinemas of the Group for sub-contracting the construction works of the Group for a period from 1 July 2014 to 30 June 2015 at a consideration of HK\$192,000,000. HK\$96,000,000 is recognised in profit or loss during the reporting period.

6. FINANCE COSTS

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Interest on borrowings wholly repayable within five years:		
– bonds	41,306	25,250
– convertible notes	17,868	3,719
– bank loans	9,530	2,123
– other loans	15,804	12,191
– securities margin facilities	7,451	4,483
– bank overdraft	3,965	29
Interest on bonds not wholly repayable within five years	5,250	59
Finance charges	1,600	5,750
Finance lease charges	7,098	4,268
	<u>109,872</u>	<u>57,872</u>

7. INCOME TAX EXPENSE

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Current tax – Hong Kong Profits Tax	<u>6,600</u>	–
Current tax – PRC Enterprise Income Tax		
Provision for the year	77,668	58,819
Under/(over) provision in prior year, net	<u>175</u>	<u>(1,107)</u>
	<u>77,843</u>	<u>57,712</u>
Deferred tax	<u>(751)</u>	<u>(834)</u>
	<u>83,692</u>	<u>56,878</u>

Hong Kong Profits Tax has been provided at a rate of 16.5% on the estimated assessable profit for the year ended 31 December 2014. 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.

7. INCOME TAX EXPENSE (Continued)

For the PRC subsidiaries of the Group, the provision for PRC Enterprise Income Tax is based on a statutory rate of 25% (2013: 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:

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Profit before taxation (excluding share of profits and losses of associates and share of profits of joint ventures)	<u><u>351,792</u></u>	<u><u>184,931</u></u>
Tax at the applicable income tax rate of 16.5% (2013: 16.5%)	58,045	30,514
Tax effect of expenses not deductible for tax purposes	16,400	28,458
Tax effect of income not taxable for tax purposes	(22,165)	(24,017)
Tax effect of unrecognised tax losses	6,873	9,422
Tax effect on utilisation of tax losses not previously recognised	(5,424)	(8,639)
Under provision in prior years	6,896	594
Over provision in prior years	(1,253)	(1,701)
Over provision for the year	765	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	24,257	21,990
Tax effect of temporary differences not recognised	(702)	52
Tax effect of current year tax loss not recognised	<u>–</u>	<u>205</u>
Income tax expense	<u><u>83,692</u></u>	<u><u>56,878</u></u>

8. PROFIT FOR THE YEAR

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

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Amortisation of lease contracts (included in selling and marketing expenses)	2,822	3,343
Amortisation of prepaid building lease rights (included in selling and marketing expenses)	1,117	1,117
Amortisation of investments in film production	–	90,110
Auditor's remuneration	3,629	3,012
Cost of services provided	487,047	372,580
Cost of inventories sold	196,062	59,113
Impairment loss on prepayment	876	–
Impairment loss on trade and other receivables, net	11,156	2,532
(Reversal of)/Provision for impairment loss on investments in an associate	(61,600)	61,600
Directors' emoluments	5,640	8,272
Depreciation on property, plant and equipment	145,693	123,209
Prepaid building lease rights written off	–	3,217
Net exchange loss/(gain)	15,480	(16,473)
Operating lease charges of land and buildings		
– minimum lease payments	154,464	127,679
– contingent rent	22,326	18,312
	176,790	145,991
Staff costs excluding directors' emoluments		
– salaries, bonus and allowances	149,103	122,890
– equity-settled share-based payments	2,657	4,245
– retirement benefit scheme contributions	30,664	28,133
	182,424	155,268
Equity-settled share-based payments paid to consultants	2,467	12,286

9. EARNINGS PER SHARE

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

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Earnings		
Earnings for the purpose of calculating basic and diluted earnings per share	<u>130,992</u>	<u>112,973</u>
Number of shares		
Issued ordinary shares at beginning of year	8,451,606,688	8,101,606,688
Effect of new shares issued by placement	256,438,356	73,835,616
Effect of new shares issued by subscription	494,246,575	–
Effect of allotment of shares for acquisition of subsidiaries	86,870,691	–
Effect of issue of conversion shares	144,390,966	–
Effect of issue of shares from exercise of share options	<u>771,689</u>	<u>–</u>
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	9,434,324,965	8,175,442,304
Effect of dilutive potential ordinary shares arising from share options	<u>187,678,638</u>	<u>1,322,242</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>9,622,003,603</u>	<u>8,176,764,546</u>

The effects of 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 2014.

10. DIVIDEND

A final dividend of HK0.37 cents (2013: HK0.41 cents) per ordinary share for the year ended 31 December 2014 amounting to approximately HK\$37,651,000 (2013: HK\$34,652,000) 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 recognised in the consolidated financial statements.

11. INVESTMENTS IN ASSOCIATES

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Listed investments:		
Share of net assets	86,409	228,670
<i>Less: Impairment loss (note)</i>	<u>–</u>	<u>(61,600)</u>
	86,409	167,070
Unlisted investments:		
Share of net assets	7,899	7,458
Goodwill	<u>9,705</u>	<u>9,705</u>
	<u>17,604</u>	<u>17,163</u>
	<u>104,013</u>	<u>184,233</u>
Fair value of listed investments in associates based on quoted market price (level 1 fair value measurement)	<u>58,166</u>	<u>116,968</u>

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. A reversal of impairment of approximately HK\$61,600,000 is recognised in profit or loss (2013: provision for HK\$61,600,000).

11. INVESTMENTS IN ASSOCIATES (Continued)

Details of the Group's associates at 31 December 2014 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	29.97%/29.97%	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.

12. TRADE AND OTHER RECEIVABLES

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Trade receivables	100,494	31,357
Rental and other deposits	552,152	275,374
Amounts due from a non-controlling interest of subsidiary <i>(note (a))</i>	25,187	17,029
Prepayments and other receivables <i>(note (b))</i>	<u>494,162</u>	<u>189,193</u>
	<u>1,171,995</u>	<u>512,953</u>

Notes:

- (a) The amount of approximately HK\$25,187,000 (2013: HK\$17,029,000) as at 31 December 2014 is unsecured, interest-free and repayable on demand.
- (b) As at 31 December 2014, prepayments and other receivables include: (i) advances to independent third parties of approximately HK\$21,853,000 (2013: HK\$36,680,000) 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:

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
0 to 30 days	19,391	7,778
31 to 90 days	19,797	12,828
91 to 180 days	50,593	4,894
181 days to 1 year	1,284	2,682
Over 1 year	<u>9,429</u>	<u>3,175</u>
	<u>100,494</u>	<u>31,357</u>

12. TRADE AND OTHER RECEIVABLES (Continued)

As at 31 December 2014, trade receivables of HK\$61,306,000 (2013: HK\$10,751,000) 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:

	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
91 to 180 days	50,593	4,894
181 days to 1 year	1,284	2,682
Over 1 year	9,429	3,175
	<u>61,306</u>	<u>10,751</u>

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

	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong dollars	2,529	2,521
Renminbi ("RMB")	97,965	28,836
Total	<u>100,494</u>	<u>31,357</u>

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.

12. TRADE AND OTHER RECEIVABLES (Continued)

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

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Balance at the beginning of the year	3,263	709
Impairment loss recognised	11,156	2,532
Exchange differences	—	22
	<u> </u>	<u> </u>
Balance at the end of the year	<u><u>14,419</u></u>	<u><u>3,263</u></u>

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

13. TRADE AND OTHER PAYABLES

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Trade payables	500,351	200,288
Customers' deposits and receipts in advance	274,670	209,622
Interests payable	19,683	10,670
PRC business and other tax payables	24,389	18,319
Amount due to non-controlling interests of subsidiaries (<i>note (a)</i>)	71,683	14,874
Margin payables due to financial institutions (<i>note (b)</i>)	103,071	75,731
Accrued charges and other payables (<i>note (c)</i>)	329,028	254,678
	<u> </u>	<u> </u>
	<u><u>1,322,875</u></u>	<u><u>784,182</u></u>

Notes:

- (a) The amount of approximately HK\$57,630,000 (2013: HK\$14,874,000) as at 31 December 2014 is unsecured, interest-free and repayable on demand. The remaining amount of approximately HK\$14,053,000 (2013: HK\$Nil) is unsecured, interest bearing at 7% per annum and repayable on demand.
- (b) The margin payables due to financial institutions are secured and repayable on demand. The interests are charged from 11% to 12% per annum.
- (c) Other payables in amount of HK\$154,574,000 is related to a new membership scheme, which has not been launched during the year.

13. 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:

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
0 to 30 days	62,250	30,884
31 to 60 days	46,303	84,249
61 days to 1 year	307,010	53,262
Over 1 year	84,788	31,893
	<u>500,351</u>	<u>200,288</u>

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

14. PLEDGE OF ASSETS

- (a) As at 31 December 2014, the Group's investments in associates amounting to approximately HK\$86,409,000 (2013: HK\$167,070,000) were pledged to secure margin account facilities granted to the Group.
- (b) As at 31 December 2014, the Group's building situated outside Hong Kong amounting to approximately HK\$30,881,000 (2013: HK\$33,069,000) was pledged to secure a bank loan granted to the Group.
- (c) The equity interests of certain subsidiaries held by the Group being pledged to secured bank loans granted to the Group were discharged in November 2014.

15. SHARE CAPITAL

	Number of shares		Amount	
	2014	2013	2014	2013
			HK\$'000	HK\$'000
<i>Authorised:</i>				
Ordinary shares of HK\$0.1 each				
At beginning of year and end of year	<u>20,000,000,000</u>	<u>20,000,000,000</u>	<u>2,000,000</u>	<u>2,000,000</u>
<i>Issued and fully paid:</i>				
Ordinary shares of HK\$0.1 each				
At beginning of year	8,451,606,688	8,101,606,688	845,161	810,161
Issue of shares by placement (note (a))	780,000,000	350,000,000	78,000	35,000
Issue of shares by subscription (note (b))	550,000,000	–	55,000	–
Allotment of shares for acquisition of a subsidiary (note (c))	122,423,947	–	12,242	–
Issue of conversion shares (note (d))	270,270,270	–	27,027	–
Share option exercised (note (e))	<u>1,666,666</u>	<u>–</u>	<u>167</u>	<u>–</u>
At end of year	<u>10,175,967,571</u>	<u>8,451,606,688</u>	<u>1,017,597</u>	<u>845,161</u>

Notes:

- (a) On 13 September 2013, the Company and the 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.

On 20 August 2014, the Company and the placing agent, Get Nice Securities Limited entered into a placing a agreement in respect of the placement of 780,000,000 ordinary shares of HK\$0.1 each to one placee at a price of HK\$0.285 per share. The placement was completed on 3 September 2014 and the premium on the issue of shares, amounting to HK\$143,189,000, net of share issue expenses of HK\$1,111,000, was credited to the Company's share premium account.

- (b) On 17 January 2014, the Company entered into a subscription agreement with Wise Vanguard Holdings Limited for the subscription of 550,000,000 ordinary shares of HK\$0.1 each to the subscriber at a price of HK\$0.21 per share. The subscription was completed on 7 February 2014 and the premium on the issue of shares, amounting to HK\$57,035,000, net of share issue expense of HK\$3,465,000, was credited to the Company's share premium account.

15. SHARE CAPITAL (Continued)

Notes: (Continued)

- (c) On 11 April 2014, the subsidiary of the Company, Best Fame Holdings Limited entered into 5 subscription agreements with vendors, to acquire an aggregate of 55% equity interest in TicketChina Holdings Limited, and among the total consideration, it comprised a partial consideration shares in the issue of 122,423,947 ordinary shares of HK\$0.1 each to vendors at a price of HK\$0.28 per share. The acquisition was completed on 17 April 2014 and the partial consideration shares were issued on the same date, and the premium on the issue of shares, amounting to approximately HK\$22,037,000, was credited to the Company's share premium account.
- (d) On 18 June 2014, a convertible note holder, Mr. Qin elected to exercise the conversion rights to the extent of the principal amount of HK\$100,000,000 of the convertible note, for the conversion of 270,270,270 ordinary shares of HK\$0.1 each at a conversion price of HK\$0.37 per share. The conversion was completed on 20 June 2014 and the premium on issue of shares, amounting to approximately HK\$72,973,000, was credited to the Company's share premium account.
- (e) During the year, 1,666,666 share options were exercised at the exercise price of HK\$0.18 per share, resulting in the issue of 1,666,666 ordinary shares of par value of HK\$0.1 each for a cash consideration of HK\$300,000.
- (f) Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year (2013: 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. As at 31 December 2014, 35.0% (2013: 27.88%) of the shares were in public hands.

EXTRACTED FROM THE INDEPENDENT AUDITOR'S REPORT

The Board and the management of the Company have been doing their utmost to assist and cooperate with the Auditors. However, due to limitation of time to perform specific audit work, eventually Auditor issued a disclaimed report. The following is the extract of the Independent Auditor's Report, "We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the deposits received from several customers of approximately HK\$393,925,000 at one of the bank accounts of a PRC subsidiary of the Group of which HK\$239,351,000 approximately were recognised in revenue and the residual of approximately HK\$154,574,000 was recognised as other payables."

Disclaimer of opinion

Because of the significance of the matters as described in the basis for disclaimer of opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements. In all other respects, in our opinion, the financial statements have been properly prepared in accordance with the Hong Kong Companies Ordinance.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2014, the Chinese movie industry has sustained its rapid growth momentum. During the year ended 31 December 2014, the Group seized the buoyant trend in the movie industry by emphasizing its core movie theater business, while increasing the investment in the expansion of non-box-office businesses (in-theater counter sales and online shopping – Xingmeihui, and advertising and promotion business etc.) and proceeding with the promotion of the new membership integrated marketing scheme (the “New Membership Scheme”). During the year, the Group has continued to adopt a stable operating strategy with innovative sales models and widening of channel terminals, and all business segments have maintained stable growth.

In the year, the Group’s operating revenue was approximately HK\$1.68 billion, increased by 18.3% as compared with approximately HK\$1.42 billion in 2013. Xingmeihui has contributed revenue of approximately HK\$188 million, increased by 2.89 times as compared with 2013. In the year, profit for the Group was approximately HK\$125 million, increased by 7.8% as compared with approximately HK\$116 million in 2013.

Movie Theater Business

The Chinese movie industry has witnessed a booming scene in 2014. There were 1,202 newly added movie theaters in China, and with 4,297 newly added screens, the total number of screens in China has reached 24,304. The box office revenue in China has surpassed RMB29.6 billion, representing a year-on-year increase of 36.2%. Benefiting from the thriving industrial landscape, the Group’s movie theater business has also recorded rapid growth, with 22 new theaters being added to the portfolio.

In 2014, the revenue of movie theater business was approximately HK\$1.49 billion, up 23.9% over 2013, while the profit of the segment has climbed 47.0% to approximately HK\$269 million (2013: HK\$183 million). Gross profit was HK\$976 million (2013: HK\$810 million), and gross profit margin has reached 65.4%.

As at 31 December 2014, the Group has opened 90 movie theaters with about 700 screens in major cities across China, as compared with 68 movies theaters with about 490 screens in 2013, representing a year-on-year increase of 32.4% and 42.9% respectively. The Group expects that the number of theaters in China under the Group will reach 150 by the end of 2015. During the year, in addition to securing its leading position in first tier provinces and cities, the Group has also strived to expand its footprint into the second and third tier cities with tremendous development potential, new theaters are being set up in cities such as Shenzhen, Chongqing and Xining etc. Given the rapid development in second and third tier cities in China, the Company believes that the enormous development potential in these regions is yet to be explored and we will step up our effort to seize the opportunities presented in these locations.

Advertising and Promotion Business

In line with our expectation, the advertising and promotion business, built around the movie theater business, has continued to expand rapidly during the year. As the Group's movie theater coverage gradually extends into all major first tier cities and fast-growing second and third tier cities, the Group's advertising and promotion business has evolved into a nationwide platform. With the objective to meet the diversified marketing needs of clients, the Group has planned the space and idle time of movie theaters, screening halls and projection screens in a sensible way accordingly, and installed high-tech equipment, such as LED panels, to sustain the growth of the advertising and promotion business. Furthermore, the Group has been diversifying advertising channels while initiating innovative promotion methods, such as holding auto shows in the theater lobby, opening more naming rights of large-scaled screening halls etc. In the future, the Group will rely on the nationwide theater platform to formulate its advertising and promotion strategies, so as to maximize the marketing efficiency for clients and attract more large-scaled clients for the Group.

New Membership Integrated Marketing Scheme

The New Membership Scheme has helped the Group to understand customer needs in a systematic approach, thereby retaining the existing customer base while exploring new pools of customers. With the establishment of a comprehensive customer database, the New Membership Scheme has laid a solid foundation for the sustainable development of the Group's core business (movie theater business) and complementary business (Xingmeihui). With the New Membership Scheme, the Group has fully explored the potential business opportunities brought by the massive audience and those within the community surrounding our movie theaters by providing different contents and utilizing different channels. Through the use of movie theater advertising, on-site events and celebrity exposure, coupled with the Online to Offline ("O2O") sales model, we have become the most valuable and dynamic platform for the brands operators and service providers in China.

During the year, the Group has continued to implement the New Membership Scheme, unleashing its full potential to further expand the membership database for the Group, so as to safeguard the Group's future development in the core business and complementary business.

Xingmeihui

In 2012, the Group has founded the first O2O e-shop based on movie theater channels in China – Xingmeihui. Leveraging on the nationwide chain theater network, and riding on the O2O Xingmeihui community digital e-shop, the Group aims to diversify its business model and strengthen its commercial advantages in the industrial chain. The "Digital" station concept initiated by the Group has comprehensively penetrated the surrounding communities of the Cineplex network, covering the consumer groups in the proximity. At the moment, Xingmeihui has extensively covered first and second tier cities and economically developed regions, and it is now gradually entering third and fourth tier cities. As at 31 December 2014, the Group has established 90 Xingmeihui in-theater zones and 150 community shops outside theaters, which are the focal points of the Group's future development.

After two years of planning and development, the maturing Xingmeihui has shown escalating growth momentum during the year. The segment has recorded revenue of approximately HK\$188 million, grew markedly by 289.2% year-on-year as compared with 2013. A slight loss of the segment amounting to approximately HK\$3.6 million (2013: profit of HK\$2.6 million) is mainly due to strategically lower the profit margin for a comprehensive penetration of our community shops surrounding the Cineplex network. Xingmeihui has become a new engine for the Group's growth, and its contribution in the future will be increasingly prominent.

During the year, the Group has vigorously sought partnership opportunities both locally and overseas. We hope to cooperate with renowned brands to deliver high quality and diversified products to our customers, including high-end brand products and food items from Hong Kong, Macau, Taiwan and foreign regions. We aim to develop Xingmeihui as a center point that offers a whole spectrum of high quality products around the world.

Prospects

The box office revenue of China is increasing, and we expect the gap between China and the world's largest movie market, the USA, to narrow further. Meanwhile, the box office for domestic films has achieved a series of breakthroughs since the beginning of the year. The China movie industry has clearly stepped into the golden era of development. In future, the Group will continue to consolidate existing businesses and bring up new business models for the sake of embracing opportunities and challenges arising from the movie industry.

FINANCIAL REVIEW

Turnover, Revenue and Profit for the year

During the year ended 31 December 2014, total turnover and revenue amounted to approximately HK\$1,681 million and approximately HK\$1,681 million respectively (2013: approximately HK\$1,452 million and approximately HK\$1,418 million respectively), an increase of 15.8% and 18.5% as compared with 2013 respectively.

During the year ended 31 December 2014, the profit after tax was approximately HK\$125 million (2013: approximately HK\$116 million), an increase of 7.8% as compared with 2013.

The increase in revenue 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 an increase in profit in the 2014 financial year.

During the year ended 31 December 2014, the segment revenue and profit were mainly contributed by theater operation.

The revenue of theater operation for the year ended 31 December 2014 increased by approximately HK\$288 million compared to 2013 while and the profit increased by 47.0% from approximately HK\$183 million in 2013 to HK\$269 million in 2014.

Furthermore, the complementary business did well during the year. Among which, in-theater counter sales and online shopping segment recorded revenues of approximately HK\$188 million. A slight loss of the segment amounting to approximately HK\$3.6 million (2013: profit of HK\$2.6 million) is mainly due to strategically lower the profit margin for a comprehensive penetration of our community shops surrounding the Cineplex network.

Selling, Marketing and Administrative Expenses

The selling, marketing and administrative expenses increased by 22.5%, 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 2014.

Financial Costs

Financial costs were mainly represented by the interest of approximately HK\$16 million from other loans, interest of approximately HK\$47 million from bonds, interest of approximately HK\$18 million from convertible notes, interest of approximately HK\$7 million from securities margin facilities and finance lease charges of approximately HK\$7 million.

Financial Resources and Liquidity

As at 31 December 2014, the Group had net current liabilities of approximately HK\$355 million. This is mainly due to issue of new bonds of approximately HK\$300 million in 2014.

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 2014, the gearing ratio (total debts (including convertible notes) to equity attributable to equity holders of the Company) rose to 40.7% from 30.6% in 2013, which was mainly due to issue of convertible notes and bonds of approximately HK\$745 million in 2014.

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\$657 million. And the net increase in prepayments for the construction of movie theaters was approximately HK\$293 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 announcement, 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 2014, the Group and the Company did not have any other significant contingent liabilities.

Events after the reporting period

- (a) On 12 March 2015, the Company entered into a conditional subscription agreement (the “Subscription Agreement”) with Linekong Interactive Company Limited, a company incorporated in Cayman Islands with limited liability and the shares of which are listed on GEM of the Stock Exchange (“Linekong”), pursuant to which Linekong has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue 139,582,733 shares at a price of HK\$0.278 per share. The net proceeds from the subscription approximately HK\$38.6 million are expected to be used for general working capital requirements. On 13 March 2015, approximately HK\$34.9 million was received. The remaining balance shall be payable by Linekong via wire transfer upon completion of the Subscription Agreement.

- (b) On 16 March 2015, the Company, a substantial shareholder of SMI Culture, entered into a placing agreement with the placing agent, Emperor Securities Limited, on a best effort basis, a maximum of 112,500,000 Shares to not less than six placees at a price of HK\$0.64 per placing share. On 16 March 2015, the Company also entered into a subscription agreement with SMI Culture pursuant to which the Company agreed to subscribe for a maximum of 112,500,000 shares at a price of HK\$0.64 per share. The shareholding of the Company in SMI Culture will decrease from approximately 29.97% to approximately 9.97% immediately after completion of the placing and will increase to approximately 24.97% immediately after completion of the subscription. The subscription was completed on 24 March 2015.
- (c) On 26 March 2015, a loan agreement was entered into between the Company and SMI Culture in relation to the provision of the facilities of up to HK\$250,000,000 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.
- (d) On 27 March 2015, the Company entered into a subscription agreement with China Consumer Capital Fund II, L.P. (“CCC”), an exempted limited partnership established under the laws of Cayman Islands, pursuant to which CCC has conditionally agreed to subscribe in cash for 8% convertible bonds in the principal amount of HK\$93,051,600 due in 2018. Based on the initial conversion price of HK\$0.36 per conversion share, a total of 258,476,666 conversion shares will be allotted and issued upon exercise of the conversion rights attached to the convertible bonds in full. The net proceeds from the subscription are estimated to be approximately HK\$92.8 million and the Company intends to use such net proceeds for capital expenditure and/or as general working capital of the Group. The transaction was completed on 30 March 2015.

Employees

Excluding the staff of associates and jointly-controlled entities, the Group had a total of 2,779 full-time staff as at 31 December 2014 (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.

DIVIDEND

A final dividend of HK0.37 cents (2013: HK0.41 cents) per ordinary share for the year ended 31 December 2014 have been proposed by the directors and are subject to approval by the shareholders in the forthcoming Annual General Meeting.

THE CORPORATE GOVERNANCE CODE

During the year ended 31 December 2014, the Company complied with the code provisions of the Corporate Governance Code (“CG Code”), except for the deviations from Code Provisions A.2.1 and E.1.2 as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) which are explained below:

Chairman and Chief Executive Officer

Under Code Provision A.2.1 of the CG Code, the role of both the Chairman and Chief Executive Officer should be separated and should not be performed by the same individual. On 3 May 2013, after the Company announced the resignation of Mr. HU Yidong as chairman of the Company, no individual was 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.

Chairman attend annual general meeting

Code provision E.1.2 of the CG Code 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 2014 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 2014 AGM. Other than the AGM, the shareholders may communicate with the Company through the contact information listed on the Company’s website.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

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

During the year ended 31 December 2014, other than those disclosed in note 15 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.

Audit Committee

Since 14 July 2009, the Company has established an audit committee (the “Audit Committee”) with written terms of reference aligned with the Code 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. KAM Chi Sing (appointed as chairman on 5 September 2014), Mr. PANG Hong and Mr. LI Fusheng.

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.

REVIEW OF THIS ANNUAL RESULTS ANNOUNCEMENT

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2014 have been agreed by the Group's auditor, RSM Nelson Wheeler ("RSM"), to the amounts set out in the Group's consolidated financial statements for the year. The work performed by RSM in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by RSM on the preliminary announcement.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.smi198.com.

The 2014 annual report of the Company containing all the information required under the Listing Rules will be despatched to shareholders of the Company and available on the above websites in due course.

APPRECIATION

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

By order of the Board
SMI Holdings Group Limited
CHENG Chi Chung

Executive Director and Chief Executive Officer

Hong Kong, 31 March 2015

As at the date of this announcement, the executive Directors of the Company are Mr. CHENG Chi Chung, Mr. YANG Rongbing, Mr. NG Kam Tsun, Mr. XI Qing and Mr. LI Yige. The independent non-executive Directors of the Company are Mr. PANG Hong, Mr. LI Fusheng and Mr. KAM Chi Sing.