
THIS COMPOSITE DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of the Offers, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold all your shares or convertible bonds in SMI Culture & Travel Group Holdings Limited, you should at once hand this Composite Document and the accompanying Forms of Acceptance to the purchaser or the transferee(s) or the licensed securities dealer or registered institution in securities or other agent through whom the sale was effected for transmission to the purchaser(s) or the transferee(s).

This Composite Document should be read in conjunction with the accompanying Forms of Acceptance, the contents of which form part of the terms and conditions of the Offers contained herein.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this Composite Document and the Forms of Acceptance, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Composite Document and the Forms of Acceptance.



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)



星美文旅

SMI Culture & Travel Group Holdings Limited
星美文化旅遊集團控股有限公司

(formerly known as SMI Culture Group Holdings Limited 星美文化集團控股有限公司)
(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)
(Stock Code: 2366)

SMI INVESTMENT (HK) LIMITED

(incorporated in Hong Kong with limited liability)

**COMPOSITE OFFER AND RESPONSE DOCUMENT RELATING TO
MANDATORY CONDITIONAL CASH OFFERS BY
EMPEROR CAPITAL LIMITED
FOR AND ON BEHALF OF SMI INVESTMENT (HK) LIMITED
TO ACQUIRE ALL ISSUED SHARES AND
ALL OUTSTANDING CONVERTIBLE BONDS OF
SMI CULTURE & TRAVEL GROUP HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED
BY SMI INVESTMENT (HK) LIMITED
AND PARTIES ACTING IN CONCERT WITH IT)**

Financial adviser to SMI Investment (HK) Limited



英皇融資有限公司
Emperor Capital Limited

Independent financial adviser to the Independent Board Committee



BAOQIAO PARTNERS

BAOQIAO PARTNERS CAPITAL LIMITED

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this Composite Document.

A letter from Emperor Capital containing, among other things, details of the terms and conditions of the Offers is set out on pages 9 to 19 of this Composite Document. A letter from the Board is set out on pages 20 to 26 of this Composite Document. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders and Bondholders in relation to the Offers is set out on pages 27 to 28 of this Composite Document. A letter from BaoQiao containing its advice on the Offers to the Independent Board Committee, the Independent Shareholders and Bondholders is set out on pages 29 to 45 of this Composite Document.

The procedures for acceptance and settlement of the Offers and other related information are set out in Appendix I to this Composite Document and in the accompanying Forms of Acceptance. Acceptances of the Offers should be received by the Registrar (in respect of the Share Offer) or the Company (in respect of the CB Offer) no later than 4:00 p.m. on 20 October 2016 or such later time and/or date as the Offeror may determine and announce with the consent of the Executive, in accordance with the Takeovers Code.

The Composite Document will remain on the website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at www.smiculture2366.com as long as the Offers remain open.

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EXPECTED TIMETABLE

The expected timetable set out below is indicative only and may be subject to change. Further announcement(s) will be made in the event of any changes to the timetable as and when appropriate.

2016

Despatch date of this Composite Document and the accompanying Forms of Acceptance (<i>Note 1</i>)	29 September
Offers open for acceptance (<i>Note 1</i>)	29 September
First Closing Date (<i>Notes 1 and 2</i>).....	20 October
Latest time and date for acceptance of the Offers (<i>Notes 2 and 4</i>).....	4:00 p.m. on 20 October
Announcement of the results of the Offers as at the First Closing Date (<i>Note 2</i>)	Not later than 7:00 p.m. on 20 October
Latest date of posting of remittances in respect of valid acceptances received on or before the First Closing Date (assuming the Offers become or are declared unconditional on the First Closing Date) (<i>Notes 3 and 4</i>)	31 October
Latest time and date for the Offers remaining open for acceptance (assuming the Offers become or are declared unconditional on the First Closing Date) (<i>Notes 4 and 5</i>)	4:00 p.m. on 3 November
Announcement of the results of the Offers (assuming the Offers become or are declared unconditional on the First Closing Date) (<i>Note 2</i>)	Not later than 7:00 p.m. on 3 November
Latest date of posting of remittances in respect of valid acceptances received after the First Closing Date but before 4:00 p.m. on 3 November 2016 (assuming the Offers become or are declared unconditional on the First Closing Date) (<i>Notes 3 to 5</i>).....	14 November
Latest time and date by which the Offers can become or be declared unconditional as to acceptances (<i>Note 6</i>).....	7:00 p.m. on 28 November

EXPECTED TIMETABLE

Notes:

1. The Offers, which are conditional, is made on the date of posting of this Composite Document, and are capable of acceptance on and from 29 September 2016 until 4:00 p.m. on the First Closing Date, unless the Offeror revises or extends the Offers in accordance with the Takeovers Code. Subject to the condition of the Offers set out in the “Letter from Emperor Capital”, acceptances of the Offers shall be irrevocable and not capable of being withdrawn, except in the circumstances set out in the section headed “Right of withdrawal” in Appendix I to this Composite Document.
2. In accordance with the Takeovers Code, the Offers must initially be open for acceptance for at least 21 days following the date on which this Composite Document is posted. The latest time and date for acceptance of the Offers is 4:00 p.m. on 20 October 2016 unless the Offeror revises or extends the Offers in accordance with the Takeovers Code. An announcement will be issued on the website of the Stock Exchange by 7:00 p.m. on 20 October 2016, stating whether the Offers have been extended, revised or expired or have become or are declared unconditional. If the Offers become unconditional on the First Closing Date, the Offers will remain open for acceptance for not less than 14 days thereafter. If the Offers do not become unconditional on or before 20 October 2016, the Offers will lapse. An announcement in respect of the results of the Offers will be issued on the website of the Stock Exchange by 7:00 p.m. on 3 November 2016 assuming the Offers become or are declared to be unconditional on the First Closing Date.
3. Assuming the Offers become or are declared unconditional on the First Closing Date, remittances in respect of the cash consideration (after deducting the seller’s ad valorem stamp duty in respect of the Share Offer) payable for the Offer Shares tendered under the Share Offer and the CBs under the CB Offer will be made to the Independent Shareholders and the Bondholders, as the case may be, accepting the Offers by ordinary post at their own risk as soon as possible, but in any event within 7 Business Days following the later of the date when the Offers become or are declared unconditional in all aspects and the date of the receipt of duly completed Forms of Acceptance together with all the valid requisite documents by the Registrar from the Independent Shareholders accepting the Share Offer or by the Company from the Bondholders accepting the CB Offer, as the case may be, in accordance with the Takeovers Code.

An acceptor of the Offers shall be entitled to withdraw its/his/her acceptance after 21 days from the First Closing Date if the Offers have not by then become unconditional as to acceptances. However, this entitlement to withdraw shall only be exercisable until such time as the Offers become or are declared unconditional as to acceptances. For further details, please refer to Appendix I to this Composite Document.
4. If there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force on the closing date of the Offers or the date for posting of remittances and it is (i) not cancelled in time for the trading of Shares on the Stock Exchange to resume in the afternoon, the closing date of the Offers will be postponed to 4:00 p.m. on the next Business Day and the date for posting of remittances will be postponed to the next Business Day which does not have either of those warnings in force in Hong Kong or such other day as the Executive may approve; or (ii) cancelled in time for the trading of Shares on the Stock Exchange to resume in the afternoon, the respective event will remain the same on the scheduled date according to the expected timetable.
5. Assuming the Offers become or are declared unconditional in all respects on the First Closing Date, the Offers should remain open for acceptance for not less than 14 days thereafter in accordance with the Takeovers Code.

EXPECTED TIMETABLE

6. In accordance with the Takeovers Code, except with the consent of the Executive, the Offers may not become or be declared unconditional as to acceptances after 7:00 p.m. on the 60th day after posting of this Composite Document. Where a period laid down by the Takeovers Code ends on a day which is not a Business Day, the period is extended until the next Business Day. Accordingly, unless the Offers have previously become or are declared unconditional as to acceptances, the Offers will lapse after 7:00 p.m. on 28 November 2016, unless extended with the consent of the Executive.

Save as mentioned above, if the latest time for the acceptance of the Offers and the posting of remittances do not take effect on the date and time as stated above, the other dates mentioned above may be affected. The Offeror and the Company will notify the Independent Shareholders and the Bondholders by way of announcement(s) of any change in the expected timetable as soon as possible.

All times and dates in this Composite Document and the accompanying Forms of Acceptance shall refer to Hong Kong times and dates.

DEFINITIONS

In this Composite Document, unless the context otherwise requires, the following expressions shall have the following meanings:

“acting in concert”	has the same meaning ascribed to it under the Takeovers Code
“associate”	has the same meaning ascribed to it under the Listing Rules
“BLUE Form of CB Offer Acceptance”	the blue form of acceptance and transfer of CBs in respect of the CB Offer
“Board”	the board of Directors
“Bondholder(s)”	holder(s) of the CBs from time to time
“Bondholders Undertakings”	the letters of irrevocable undertaking both dated 27 September 2016 given by Cheer Hope and Ever Ascend respectively, to the Offeror and the Company in relation to their intention to the Offers
“Business Day(s)”	a day on which the Stock Exchange is open for the transaction of business
“CB(s)”	as at the Latest Practicable Date, the outstanding convertible bonds are in the aggregate principal amount of HK\$35,000,000 issued by the Company to Cheer Hope on 8 August 2016
“CB Offer”	the mandatory conditional cash offer being made by Emperor Capital on behalf of the Offeror in accordance with the Takeovers Code to acquire all outstanding CBs (other than those already owned and/or agreed to be acquired by the Offeror and parties acting in concert with it) in accordance with the Takeovers Code
“CCASS”	the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited
“Cheer Hope”	Cheer Hope Holdings Limited

DEFINITIONS

“Cheer Hope CB”	the convertible bonds to be issued by the Company, subject to its terms and conditions, to Cheer Hope at an aggregate amount of HK\$65,000,000 with initial conversion price of HK\$0.675 and conversion rights to convert up to 96,296,296 conversion Shares, details of which are set out in the announcement of the Company dated 8 August 2016
“Company”	SMI Culture & Travel Group Holdings Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 2366)
“Composite Document”	this document jointly issued by or on behalf of the Offeror, SMI Holdings and the Company to the Independent Shareholders and the Bondholders in accordance with the Takeovers Code in respect of the Offers
“connected person”	has the meaning ascribed thereto under the Listing Rules
“controlling shareholder”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	director(s) of the Company
“Emperor Capital”	Emperor Capital Limited, a corporation licensed under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities, and the financial adviser to the Offeror
“Emperor Securities”	Emperor Securities Limited, a corporation licensed under the SFO to carry out type 1 (dealing in securities) and type 4 (advising on securities) regulated activities
“Encumbrances”	any mortgage, charge, pledge, lien (otherwise than arising by statute or operation of law), hypothecation or other encumbrance, priority or security interest or other third party right, deferred purchase, title retention, leasing, sale-and-repurchase or sale-and-leaseback or trust arrangement whatsoever over or in any property, assets or rights of whatsoever nature and includes any agreement for any of the same

DEFINITIONS

“Ever Ascend”	Ever Ascend Investments Limited
“Ever Ascend CB”	the convertible bonds to be issued by the Company, subject to its terms and conditions, to Ever Ascend at an aggregate amount of HK\$100,000,000 with initial conversion price of HK\$0.675 and conversion rights to convert up to 148,148,148 conversion Shares, details of which are set out in the announcement of the Company dated 5 September 2016
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director, as defined in the Takeovers Code
“Facility”	a loan facility in the amount of HK\$680 million granted by Emperor Securities in favour of the Offeror, which is secured, inter alia, by a charge of the Shares owned by and/or to be acquired by the Offeror in favour of Emperor Securities
“First Closing Date”	the first closing date of the Offers which is 21 days after the date on which this Composite Document is posted
“First Purchase”	the purchase of 335,000 Shares at price ranging from HK\$0.60 to HK\$0.61 per Share by the Offeror from the open market on 5 September 2016
“Forms of Acceptance”	the WHITE Form of Share Offer Acceptance and/or the BLUE Form of CB Offer Acceptance (as the context may require) in respect of the Offers which accompany this Composite Document
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent committee of the Board, comprising all non-executive Directors, formed to advise the Independent Shareholders and the Bondholders in respect of the Offers
“Independent Financial Adviser” or “BaoQiao”	BaoQiao Partners Capital Limited, a corporation licensed under the SFC to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities, being the independent financial adviser to the Independent Board Committee in respect of the Offers

DEFINITIONS

“Independent Shareholders”	the Shareholders other than the Offeror and parties acting in concert with it
“Joint Announcement”	the joint announcement jointly issued by the Offeror, SMI Holdings and the Company dated 8 September 2016 in relation to, among other things, the Offers
“Last Trading Day”	5 September 2016, being the last trading day before trading of the Shares on the Stock Exchange was halted pending the publication of the Joint Announcement
“Latest Practicable Date”	27 September 2016, being the latest practicable date prior to the printing of this Composite Document for ascertaining certain information contained in this Composite Document
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Offer Period”	the period commencing on 8 September 2016, being the date of the Joint Announcement, and ending the date when the Offers close
“Offers”	the Share Offer and the CB Offer
“Offeror”	SMI Investment (HK) Limited, a company incorporated in Hong Kong with limited liability and is a wholly-owned subsidiary of SMI Holdings
“Offer Share(s)”	any and all of the Share(s) in issue, other than those already owned and/or agreed to be acquired by the Offeror and/or parties acting in concert with it
“Purchases”	the First Purchase and the Second Purchase
“Registrar”	Union Registrars Limited, the Hong Kong branch share registrar and transfer office of the Company, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King’s Road, North Point, Hong Kong
“Relevant Period”	the period commencing from 8 March 2016, being the date falling six months preceding the date of the Joint Announcement, up to and including the Latest Practicable Date
“Second Purchase”	the purchase of 21,030,000 Shares at HK\$0.70 per Share by the Offeror from the open market on 5 September 2016

DEFINITIONS

“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	the ordinary share(s) of the Company of HK\$0.01 each
“Share Offer”	the mandatory conditional cash offer being made by Emperor Capital on behalf of the Offeror in accordance with the Takeovers Code to acquire all issued Shares (other than those already owned or agreed to be acquired by the Offeror and the parties acting in concert with it) in accordance with the Takeovers Code
“Share Offer Price”	the price at which the Share Offer is made, being HK\$0.80 per Offer Share
“Shareholder(s)”	holder(s) of Share(s) from time to time
“SMI Group”	SMI Holdings and its subsidiaries
“SMI Holdings”	SMI Holdings Group Limited, a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 198)
“Stamp Duty Ordinance”	the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Strategic Media”	Strategic Media International Limited, a company incorporated in the British Virgin Islands with limited liability, and is wholly-owned by Mr. Qin Hui as at the Latest Practicable Date
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“WHITE Form of Share Offer Acceptance”	the white form of acceptance and transfer of Shares in respect of the Share Offer
“%”	per cent.

LETTER FROM EMPEROR CAPITAL



英皇融資有限公司
Emperor Capital Limited

28/F, Emperor Group Centre
288 Hennessy Road
Wanchai, Hong Kong

29 September 2016

To the Independent Shareholders and the Bondholders

Dear Sirs,

**MANDATORY CONDITIONAL CASH OFFERS BY
EMPEROR CAPITAL LIMITED
FOR AND ON BEHALF OF SMI INVESTMENT (HK) LIMITED
TO ACQUIRE ALL ISSUED SHARES AND
ALL OUTSTANDING CONVERTIBLE BONDS OF
SMI CULTURE & TRAVEL GROUP HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED
BY SMI INVESTMENT (HK) LIMITED
AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

Reference is made to the Joint Announcement. On 5 September 2016 (after trading hours), the Company was informed by the Offeror that on 5 September 2016, (i) the Offeror has purchased 335,000 Shares at price ranging from HK\$0.60 to HK\$0.61 per Share from the open market, which were subsequently sold by the Offeror at HK\$0.61 each on the open market on the same day; and (ii) the Offeror has purchased 21,030,000 Shares at HK\$0.70 each from the open market. Prior to the Purchases, the Offeror was interested in 242,952,281 Shares, representing approximately 29.99% of the issued share capital of the Company. Upon completion of the Second Purchase on 7 September 2016, the Offeror was interested in 263,982,281 Shares, representing approximately 32.59% of the voting rights of the Company.

LETTER FROM EMPEROR CAPITAL

Pursuant to Rule 26.1 of the Takeovers Code, the Purchases triggered the obligation for the Offeror to make mandatory conditional cash offers for all issued Shares and all outstanding CBs (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it) on the terms set out in this Composite Document issued in accordance with the Takeovers Code.

The Offers are conditional on the number of Shares in respect of acceptances of the Share Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the date on which the Offers close (or such later time and/or date as the Offeror may, with the consent of the Executive and in accordance with the Takeovers Code, decide), together with the Shares already owned by the Offeror and parties acting in concert with it and acquired or agreed to be acquired before or during the Offer Period, resulting in the Offeror and parties acting in concert with it holding more than 50% of the voting rights of the Company in accordance with the Takeovers Code.

Subsequent to the Joint Announcement and up to the Latest Practicable Date, the Offeror has conducted on-market purchases, details of which are set out under the section headed “DISCLOSURE OF OTHER INTERESTS AND DEALINGS IN SECURITIES OF THE COMPANY” in Appendix III to this Composite Document. As at the Latest Practicable Date, the Offeror was interested in 367,477,281 Shares, representing approximately 45.36% of the issued share capital of the Company.

This letter forms part of this Composite Document and sets out, among other things, details of the Offers, information of the Offeror and its intention regarding the Group and its employees. Further details on the terms and the procedures for acceptances of the Offers are set out in Appendix I to this Composite Document and the accompanying Forms of Acceptance.

The Independent Shareholders and the Bondholders are strongly advised to carefully consider the information contained in the “Letter from the Board”, the “Letter from the Independent Board Committee”, the “Letter from BaoQiao” and the appendices as set out in this Composite Document and to consult their professional advisers before reaching a decision as to whether or not to accept the Offers.

THE OFFERS

The Share Offer

Emperor Capital, for and on behalf of the Offeror, is making a mandatory conditional cash offer to acquire all issued Shares in the share capital of the Company (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it) on the terms set out in this Composite Document in accordance with the Takeovers Code on the following basis:

For each Offer ShareHK\$0.80 in cash

LETTER FROM EMPEROR CAPITAL

The Share Offer will be extended to all Independent Shareholders in accordance with the Takeovers Code. The Offer Shares to be acquired under the Share Offer shall be fully paid and free from all Encumbrances and together with all rights attaching to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid by reference to a record date on or after the date on which the Share Offer is made, that is, the date of despatch of this Composite Document.

The Share Offer Price

The Share Offer Price of HK\$0.80 per Offer Share represents:

- (i) a premium of 14.29% over the consideration of each Share under the Second Purchase and the closing price of HK\$0.70 per Share as quoted on the Stock Exchange on 5 September 2016, being the Last Trading Day;
- (ii) a premium of approximately 32.01% over the average closing price of approximately HK\$0.606 per Share for the last 5 consecutive trading days immediately prior to and including the Last Trading Day;
- (iii) a premium of approximately 36.52% over the average closing price of approximately HK\$0.586 per Share for the last 10 consecutive trading days immediately prior to and including the Last Trading Day;
- (iv) a premium of approximately 39.86% over the average closing price of approximately HK\$0.572 per Share for the last 30 consecutive trading days immediately prior to and including the Last Trading Day;
- (v) a discount of approximately 1.23% to the closing price of HK\$0.81 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (vi) a premium of approximately 29.66% over the audited consolidated net asset value attributable to the Shareholders of approximately HK\$0.617 per Share as at 31 December 2015, the date to which the latest audited financial results of the Group were made up; and
- (vii) a premium of approximately 23.55% over the unaudited consolidated net asset value attributable to the Shareholders of approximately HK\$0.648 per Share as at 30 June 2016 based on the interim result announcement of the Company dated 29 August 2016.

The CB Offer

Emperor Capital, for and on behalf of the Offeror, hereby makes the CB Offer in accordance with Rule 13 of the Takeovers Code on the following basis:

For every HK\$5,000,000 face value of the CBs..... HK\$5,925,925.93 in cash

LETTER FROM EMPEROR CAPITAL

The CB Offer will apply to all outstanding CBs in issue on the date on which the CB Offer is made and will not apply to any CBs which are or have been converted into Shares prior to the close of the Offers. As at the Latest Practicable Date, the Company has outstanding CBs at principal amount of HK\$35,000,000 with conversion price of HK\$0.675 held by Cheer Hope. Should all outstanding CBs be converted prior to the close of the Offers, additional 51,851,851 conversion Shares shall be subject to the Share Offer.

The offer price for the CBs is HK\$5,925,925.93 for every HK\$5,000,000 face value of the CBs, determined in accordance with Rule 13 of the Takeovers Code as the “see-through” consideration for the CBs, being the number of Shares into which the CBs are convertible at conversion price of HK\$0.675 each (being approximately 51,851,851 conversion Shares) multiplied by the Share Offer Price (being HK\$0.80 per Share). Based on all the outstanding CBs in issue, the total CB Offer is valued at a maximum of approximately HK\$41,481,481.

BONDHOLDERS UNDERTAKINGS

Reference is made to the joint announcements of the Company and SMI Holdings dated 8 August 2016 and 5 September 2016 in relation to, among other things, the Cheer Hope CB and Ever Ascend CB.

Pursuant to the Cheer Hope CB subscription agreement, subject to terms and conditions thereto, the Company shall issue convertible bonds at an aggregate principal amount of HK\$65,000,000 at the conversion price of HK\$0.675 per conversion Share (subject to adjustment) to Cheer Hope with conversion rights to convert up to 96,296,296 conversion Shares.

Pursuant to the Ever Ascend CB subscription agreement, subject to terms and conditions thereto, the Company shall issue convertible bonds at an aggregate principal amount of HK\$100,000,000 at the conversion price of HK\$0.675 per conversion Share (subject to adjustment) to Ever Ascend with conversion rights to convert up to 148,148,148 conversion Shares.

On 27 September 2016, each of Cheer Hope and Ever Ascend has respectively given the Bondholders Undertakings to the Offeror and the Company in respect of their intention in relation to the Offers in the event that the Cheer Hope CB and/or the Ever Ascend CB are issued before the close of the Offers. Pursuant to the Bondholders Undertakings, each of Cheer Hope and Ever Ascend irrevocably undertakes that it will not (i) accept the CB Offer or the Share Offer in relation to the Cheer Hope CB or its 96,296,296 conversion Shares upon conversion or Ever Ascend CB or its 148,148,148 conversion Shares upon conversion (as the case may be); and (ii) transfer, dispose or create encumbrances (or enter into agreement to transfer, dispose or create encumbrances) in respect of their respective convertible bonds or their interests in the Shares after conversion and prior to the close of the Offers. For the avoidance of doubt, Cheer Hope has only given irrevocable undertakings for the Cheer Hope CB which does not apply to the existing CBs in the principal amount of HK\$35,000,000 held by Cheer Hope.

LETTER FROM EMPEROR CAPITAL

Save for the CBs (which were issued to Cheer Hope on 8 August 2016), and the Cheer Hope CB and Ever Ascend CB (which are to be issued subject to its respective terms and conditions), none of Cheer Hope and Ever Ascend had dealt in the Shares or convertible securities, warrants, options or derivatives of the Company during the Relevant Period. Save for the CBs which are held by Cheer Hope, each of Cheer Hope and Ever Ascend did not hold any Shares or convertible securities, warrants, options or derivatives of the Company as at the Latest Practicable Date.

Condition to the Offers

The Offers are conditional on the number of Shares in respect of acceptances of the Share Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the First Closing Date (or such later time and/or date as the Offeror may, with the consent of the Executive and in accordance with the Takeovers Code, decide), together with the Shares already owned by the Offeror and parties acting in concert with it and acquired or agreed to be acquired before or during the Offer Period, resulting in the Offeror and parties acting in concert with it holding more than 50% of the voting rights of the Company in accordance with the Takeovers Code.

The Offeror will issue an announcement in relation to the revision, extension or lapse of the Offers or the fulfilment of the condition to the Offers in accordance with the Takeovers Code and the Listing Rules. The latest time on which the Offeror can declare the Offers unconditional as to acceptance is 7:00 p.m. on the 60th day after the despatch of this Composite Document (or such later date to which the Executive may consent).

Settlement of consideration

Subject to the Offers having become, or have been declared, unconditional in all respects, settlement of the consideration in respect of acceptances of the Offers will be made as soon as possible but in any event within seven (7) Business Days following the date of receipt of duly completed and valid Forms of Acceptance together with all the valid requisite documents by the Registrar from the Independent Shareholders accepting the Share Offer or by the Company from the Bondholders accepting the CB Offer, or the date on which the Offers become or are declared unconditional in all aspects, whichever is later.

No fractions of a cent will be payable and the amount of cash consideration payable to an Independent Shareholder or a Bondholder (as the case may be) who accepts the Share Offer or the CB Offer (as the case may be) will be rounded up to the nearest cent.

Save for payment of stamp duty as set out in this Composite Document, settlement of the amounts due to the accepting Independent Shareholders and Bondholders will be implemented in full without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be entitled against such Independent Shareholder or Bondholder.

LETTER FROM EMPEROR CAPITAL

Return of documents

If the Offers do not become, or are not declared, unconditional in all respects within the time permitted by the Takeovers Code, the share certificate(s), the certificates(s) in respect of the CBs and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) received by the Registrar or by the Company (as the case may be) will be returned to the Independent Shareholders and/or the Bondholders (as the case may be) who have accepted the Offers, by ordinary post at the Independent Shareholders' and/or the Bondholders' own risk as soon as possible but in any event within ten (10) days after the Offers have lapsed.

Availability of the Offers to the overseas Independent Shareholders and Bondholders

The Offeror intends to make the Offers available to all Independent Shareholders and Bondholders, including those who are resident outside of Hong Kong. The availability of the Offers to persons not resident in Hong Kong may be affected by the laws of the relevant overseas jurisdictions. The making of the Offers to persons with a registered address in jurisdictions outside Hong Kong may be prohibited or limited by the laws or regulations of the relevant jurisdictions. Such Independent Shareholders and/or Bondholders who are citizens, residents or nationals of a jurisdiction outside Hong Kong should observe any applicable legal or regulatory requirements and, where necessary, seek legal advice. Persons who are residents, citizens or nationals outside Hong Kong should inform themselves about and observe, at their own responsibility, any applicable laws, regulations, requirements and restrictions in their own jurisdictions in connection with the acceptance of the Offers, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with the other necessary formalities and the payment of any issue, transfer or other fares from the accepting Independent Shareholder(s)/Bondholder(s) due in such jurisdiction.

Any acceptance by the Independent Shareholders and/or the Bondholders and the beneficial owners of the Shares and the CBs who are citizens, residents or nationals of a jurisdiction outside of Hong Kong will be deemed to constitute a representation and warranty from such persons to the Offeror that the local laws and requirements have been complied with and such acceptance shall be valid and binding in accordance with all applicable laws. The Independent Shareholders and/or the Bondholders should consult their respective professional advisers if in doubt. Independent Shareholders and/or Bondholders who are in doubt as to the action they should take should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional advisers.

LETTER FROM EMPEROR CAPITAL

Effect of accepting the Offers

The Offers are conditional. Subject to the Share Offer becoming unconditional, provided that valid **WHITE** Forms of Share Offer Acceptance and the relevant certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are complete and in good order in all respects and have been received by the Registrar, the Independent Shareholders will sell their tendered Shares to the Offeror free from all Encumbrances and together with all rights attaching to them, including, without limitation, the rights to receive in full all dividends and other distributions, if any, recommended, declared, made or paid by reference to a record date on or after the date on which the Share Offer is made, that is, the date of despatch of this Composite Document.

Subject to the CB Offer becoming unconditional, acceptance of the CB Offer by any Bondholders will be deemed to constitute a warranty by the relevant Bondholder that all CBs sold by the relevant Bondholder under the CB Offer are free from all Encumbrances and together with all rights attaching to them, including the rights to receive in full all interest on or after the date on which the CB Offer is made, that is, the date of despatch of this Composite Document.

Your attention is drawn to the further details regarding the procedures for acceptance and settlement and acceptance period as set out in Appendix I to this Composite Document and the accompanying Forms of Acceptance.

Stamp duty

In Hong Kong, the seller's ad valorem stamp duty arising in connection with acceptances of the Share Offer will be payable by the relevant Independent Shareholders at a rate of 0.1% of (i) the market value of the Offer Shares; or (ii) the consideration payable by the Offeror in respect of the relevant acceptances of the Share Offer, whichever is higher, will be deducted from the cash amount payable by the Offeror to such Independent Shareholder on acceptance of the Share Offer. The Offeror will arrange for payment of the seller's ad valorem stamp duty on behalf of the relevant Independent Shareholders accepting the Share Offer and will pay the buyer's ad valorem stamp duty in connection with the acceptances of the Share Offer and the transfer of the Offer Shares in accordance with the Stamp Duty Ordinance.

No stamp duty is payable in connection with the acceptances of the CB Offer.

Taxation advice

The Independent Shareholders and the Bondholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Offers. None of the Offeror, parties acting in concert with the Offeror, the Company and their respective ultimate beneficial owners, directors, officers, advisers, agents or associates or any other person involved in the Offers accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offers.

LETTER FROM EMPEROR CAPITAL

VALUE OF THE OFFERS

As at the Latest Practicable Date, there are 810,057,684 Shares in issue, of which 367,477,281 Shares are held by the Offeror and parties acting in concert with it. Accordingly, the Share Offer is valued at approximately HK\$354,064,322 based on the Share Offer Price of HK\$0.80 and 442,580,403 Offer Shares.

On 27 September 2016, each of Cheer Hope and Ever Ascend has respectively given the Bondholders Undertakings to the Offeror and the Company, pursuant to which, each of Cheer Hope and Ever Ascend irrevocably undertakes not to accept the CB Offer or the Share Offer or transfer, dispose or create encumbrances in respect of their Cheer Hope CB or Ever Ascend CB or their interests in the Shares after conversion and prior to the close of the Offers (as the case may be) in the event that the Cheer Hope CB and/or the Ever Ascend CB are issued before the close of the Offers.

As at the Latest Practicable Date, the Company has outstanding CBs in the principal amount of HK\$35,000,000 with initial conversion price of HK\$0.675. Based on the CB Offer price of HK\$5,925,925.93 for every CB in face value of HK\$5,000,000, the CB Offer is valued at a maximum of approximately HK\$41,481,481.

Assuming the Offers are accepted in full on the basis that (i) none of the conversion rights attaching to the CBs are exercised prior to the close of the Offers; and (ii) there is no change in the issued share capital of the Company up to the close of the Offers, a total of 442,580,403 issued Shares (representing the Shares not already held or to be acquired by the Offeror and parties acting in concert with it as at the Latest Practicable Date) will be subject to the Share Offer and the maximum cash consideration payable by the Offeror under the Offers would be approximately HK\$395,545,803. Upon full conversion of the CBs prior to the close of the Offers, additional 51,851,851 conversion Shares shall be issued and the enlarged share capital in issue would be 861,909,535 Shares and the Offer Shares available for the Share Offer shall be 494,432,254 Shares. The maximum cash consideration payable by the Offeror under the Offers would be the same of approximately HK\$395,545,803.

Save as disclosed above, the Company has no outstanding options, warrants, derivatives or securities convertible or exchangeable into Shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) as at the Latest Practicable Date.

FINANCIAL RESOURCES AVAILABLE TO THE OFFEROR

The Offeror intends to finance the consideration payable by the Offeror under the Offers in full by the Facility. Emperor Capital, being the financial adviser to the Offeror in respect of the Offers, is satisfied that sufficient financial resources are available to the Offeror to satisfy the total consideration in respect of full acceptance of the Offers.

Pursuant to the arrangement of the Facility, amongst others, the Offeror has pledged all the Shares owned and to be acquired under the Share Offer (if any), and such arrangement will not result in a change of the voting rights of the Company. The collateralized Shares shall be released to the Offeror immediately upon full repayment of all the outstanding amounts of the relevant loan facility and the interest thereon.

LETTER FROM EMPEROR CAPITAL

INFORMATION OF THE GROUP

The Group is principally engaged in the investments in the production and distribution of films, investments in the production and distribution of television dramas, creations, production and distribution of new media contents, production and distribution of online and film advertisements and agency operations for films, directors, scriptwriters and artists, and travel business.

Details of the information on the Group are set out in the “Letter from the Board” in this Composite Document.

INFORMATION OF THE OFFEROR

The Offeror is incorporated in Hong Kong with limited liability and is principally engaged in investment in securities. As at the Latest Practicable Date, it is wholly owned by SMI Holdings, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 198). SMI Holdings is an investment holding company, principally engaged in movie theater operation, investments in film production and distribution, in-theatre counter sales and online shopping. As at the Latest Practicable Date, SMI Holdings is held by Mr. Qin Hui as to approximately 59.79% by himself directly and as to approximately 0.05% through Strategic Media indirectly.

Mr. Qin Hui is a businessman and actively involved in movie/media and entertainment and investment related businesses.

INTENTIONS OF THE OFFEROR REGARDING THE GROUP AND ITS EMPLOYEES

SMI Holdings and the Offeror consider that the Purchases and the Offers provide an opportunity for them to increase their stake and to consolidate control in the Company. The Offeror has confirmed to the Company that it does not intend to cause the Group to change its existing business. The Offeror has no intention to dispose of or re-deploy the fixed assets of the Group other than in the ordinary course of business.

As at the Latest Practicable Date, the Offeror does not have any intention, arrangement, agreement, understanding or negotiation on (a) any disposal, termination or scaling down of the existing businesses of the Group; (b) any injection of any new business (other than any existing business of the Group including upstream business, including but not limited to, investments and production of films, television dramas, new media contents, online and film advertisements and agency operations for films, directors, scriptwriters and artists, and/or downstream business, including but not limited to distribution of films, television dramas, new media contents, online and film advertisements and cinema operation, in the entertainment industry and travel industry, including but not limited to provision of travel agency services and investment in resort business, which the Group might consider acquiring) to the Group; and (c) any change in the shareholding structure of the Company, other than those contemplated under the Offers. As at the Latest Practicable Date, the Group has not identified any potential acquisition targets in the mentioned business. The Offeror also intends to continue the employment of the existing management and employees including the board composition of the Group.

LETTER FROM EMPEROR CAPITAL

The Offeror will, following the closing of the Offers, conduct a review of the operations of the Group in order to formulate a long-term strategy for the Group and explore other business or investment opportunities for enhancing its future development and strengthening its revenue bases. The Offeror intends that the Group will continue to operate its business in substantially its current state. However, the Offeror reserves the right to make any changes that it deems necessary or appropriate to the Group's businesses and operations to better integrate, generate maximum synergy and achieve enhanced economies of scale with the other operations of the Offeror. As at the Latest Practicable Date, the Offeror has not identified any such investment or business opportunities.

COMPULSORY ACQUISITION

The Offeror does not intend to avail itself of any power of compulsory acquisition of any Shares after the close of the Offers.

PUBLIC FLOAT AND MAINTAINING THE LISTING STATUS OF THE COMPANY

The Offeror intends the Company to remain listed on the Main Board of the Stock Exchange after the close of the Offers.

The Stock Exchange has stated that, if, at the close of the Offers, less than the minimum prescribed percentage applicable to the Company, being 25% of the Shares, are held by the public, or if the Stock Exchange believes that:

- (a) a false market exists or may exist in the trading of the Shares; or
- (b) there are insufficient Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend dealings in the Shares. The sole director of the Offeror and any new Director(s) to be appointed to the Board will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares.

GENERAL

To ensure equality of treatment of all Independent Shareholders and Bondholders, those registered Independent Shareholders and Bondholders who hold the Shares and CBs as nominee for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. It is essential for the beneficial owners of the Shares or CBs whose investments are registered in the names of nominees to provide instructions to their nominees of their intentions with regard to the Offers.

LETTER FROM EMPEROR CAPITAL

Attention of the overseas Independent Shareholders and Bondholders is drawn to the paragraph headed “Availability of the Offers to the overseas Independent Shareholders and Bondholders” above in this letter.

All documents and remittances to be sent to the Independent Shareholders and the Bondholders will be sent to them by ordinary post at their own risk. Such documents and remittances will be sent to the Independent Shareholders and Bondholders at their respective addresses as they appear in the register of members of the Company or register of Bondholders and in the case of joint Independent Shareholders and Bondholders, to such Independent Shareholders and Bondholder whose name appears first in the register of members of the Company or register of Bondholders. The Offeror and parties acting in concert with it, the Company, SMI Holdings, Emperor Capital, Emperor Securities, BaoQiao, the Registrar or any of their respective directors or professional advisers or any other parties involved in the Offers will not be responsible for any loss or delay in transmission or any other liabilities that may arise as a result thereof or in connection therewith.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this Composite Document which form part of this Composite Document. You are reminded to carefully read the “Letter from the Board”, the advice of the Independent Board Committee, the recommendation from BaoQiao and other information about the Group which are set out in this Composite Document before deciding whether or not to accept the Offers.

Yours faithfully,
For and on behalf of
Emperor Capital Limited
Louisa Choi
Director

LETTER FROM THE BOARD



星美文旅

SMI Culture & Travel Group Holdings Limited **星美文化旅遊集團控股有限公司**

(formerly known as SMI Culture Group Holdings Limited 星美文化集團控股有限公司)

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 2366)

Board of Directors:

Executive Directors:

Mr. Wang Fei (*Chairman*)

Mr. Jiang Feng (*President*)

Mr. Chan Chi To, Antony

Mr. Kong Dalu

Registered office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Independent Non-executive Directors:

Mr. Du Jiang

Mr. Liu Xianbo

Mr. Wu Chieng-Chiang

*Head office and principal place of
business in Hong Kong*

19/F., Prosperity Tower

No. 39 Queen's Road Central

Central, Hong Kong

To the Independent Shareholders and Bondholders,

29 September 2016

Dear Sir or Madam,

**MANDATORY CONDITIONAL CASH OFFERS BY
EMPEROR CAPITAL LIMITED
FOR AND ON BEHALF OF SMI INVESTMENT (HK) LIMITED
TO ACQUIRE ALL ISSUED SHARES AND
ALL OUTSTANDING CONVERTIBLE BONDS OF
SMI CULTURE & TRAVEL GROUP HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED
BY SMI INVESTMENT (HK) LIMITED
AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

Reference is made to the Joint Announcement. On 5 September 2016 (after trading hours), the Company was informed by the Offeror that on 5 September 2016, (i) the Offeror has purchased 335,000 Shares at price ranging from HK\$0.60 to HK\$0.61 per Share from the open market, which were subsequently sold by the Offeror at HK\$0.61 each on the open market on the same day; and (ii) the Offeror has purchased 21,030,000 Shares at HK\$0.70 each from the open

LETTER FROM THE BOARD

market on 5 September 2016. Prior to the Purchases, the Offeror was interested in 242,952,281 Shares, representing approximately 29.99% of the issued share capital of the Company. Upon completion of the Second Purchase on 7 September 2016, the Offeror was interested in 263,982,281 Shares, representing approximately 32.59% of the voting rights of the Company.

As the Offeror has increased its holding of voting rights in the Company to 30% or more and has therefore incurred an obligation to make a mandatory conditional offers under the Takeovers Code for all issued Shares and all outstanding CBs other than those already owned or agreed to be acquired by it and parties acting in concert with it pursuant to Rule 26.1 of the Takeovers Code.

Subsequent to the Joint Announcement and up to the Latest Practicable Date, the Offeror has conducted on-market purchases, details of which are set out under the section headed “DISCLOSURE OF OTHER INTERESTS AND DEALINGS IN SECURITIES OF THE COMPANY” in the Appendix III to this Composite Document. As at the Latest Practicable Date, the Offeror was interested in 367,477,281 Shares, representing approximately 45.36% of the issued share capital of the Company.

Emperor Capital is making the Offers for and on behalf of the Offeror.

The Independent Board Committee comprising Mr. Du Jiang, Mr. Liu Xianbo and Mr. Wu Chien-Chiang, who have no direct or indirect interest in the Offers has been established to make a recommendation to the Independent Shareholders and the Bondholders as to whether the terms of the Offers are fair and reasonable and as to the acceptance of the Offers.

BaoQiao, with the approval of the Independent Board Committee, has been appointed as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Offers. The full text of the letter from BaoQiao to the Independent Board Committee is set out in this Composite Document.

Further terms and the procedures for acceptance of the Offers are set out in the “Letter from Emperor Capital” and Appendix I to this Composite Document. The purpose of this Composite Document is to provide you with, among other things, information relating to the Company and the Offers as well as to set out (i) the “Letter from the Independent Board Committee” containing its recommendation to the Independent Shareholders and the Bondholders, and (ii) the “Letter from BaoQiao” containing the advice of the Independent Financial Adviser to the Independent Board Committee in relation to the Offers.

LETTER FROM THE BOARD

THE OFFERS

As set out in the “Letter from Emperor Capital” contained in this Composite Document, Emperor Capital is making the Offers for and on behalf of the Offeror in compliance with the Takeovers Code.

THE OFFERS

The Share Offer

Emperor Capital, for and on behalf of the Offeror, is making a mandatory conditional cash offer to acquire all the issued Shares in the share capital of the Company (other than those already owned or agreed to be acquired by the Offeror and the parties acting in concert with it) on the terms set out in this Composite Document in accordance with the Takeovers Code on the following basis:

For each Offer ShareHK\$0.80 in cash

The Share Offer will be extended to all Independent Shareholders in accordance with the Takeovers Code. The Offer Shares to be acquired under the Share Offer shall be fully paid and free from all Encumbrances and together with all rights attaching to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid by reference to a record date on or after the date on which the Share Offer is made, that is, the date of despatch of this Composite Document.

The Share Offer Price

The Share Offer Price of HK\$0.80 per Offer Share represents:

- (i) a premium of 14.29% over the consideration of each Share under the Second Purchase and the closing price of HK\$0.70 per Share as quoted on the Stock Exchange on 5 September 2016, being the Last Trading Day;
- (ii) a premium of approximately 32.01% over the average closing price of approximately HK\$0.606 per Share for the last 5 consecutive trading days immediately prior to and including the Last Trading Day;
- (iii) a premium of approximately 36.52% over the average closing price of approximately HK\$0.586 per Share for the last 10 consecutive trading days immediately prior to and including the Last Trading Day;
- (iv) a premium of approximately 39.86% over the average closing price of approximately HK\$0.572 per Share for the last 30 consecutive trading days immediately prior to and including the Last Trading Day;

LETTER FROM THE BOARD

- (v) a discount of approximately 1.23% to the closing price of HK\$0.81 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (vi) a premium of approximately 29.66% over the audited consolidated net asset value attributable to the Shareholders of approximately HK\$0.617 per Share as at 31 December 2015, the date to which the latest audited financial results of the Group were made up; and
- (vii) a premium of approximately 23.55% over the unaudited consolidated net asset value attributable to the Shareholders of approximately HK\$0.648 per Share as at 30 June 2016 based on the interim result announcement of the Company dated 29 August 2016.

The CB Offer

Emperor Capital, for and on behalf of the Offeror, hereby makes the CB Offer in accordance with Rule 13 of the Takeovers Code on the following basis:

For every HK\$5,000,000 face value of the CBs..... HK\$5,925,925.93 in cash

The CB Offer will apply to all outstanding CBs in issue on the date on which the CB Offer is made and will not apply to any CBs which are or have been converted into Shares prior to the close of the Offers. As at the Latest Practicable Date, the Company has outstanding CBs in the principal amount of HK\$35,000,000 with conversion price of HK\$0.675 held by Cheer Hope. Should all the outstanding CBs be converted prior to the close of the Offers, additional 51,851,851 conversion Shares shall be subject to the Share Offer.

The offer price for the CBs is HK\$5,925,925.83 for every HK\$5,000,000 face value of the CBs, determined in accordance with Rule 13 of the Takeovers Code as the “see-through” consideration for the CBs, being the number of Shares into which the CBs are convertible at conversion price of HK\$0.675 each (being approximately 51,851,851 conversion Shares) multiplied by the Share Offer Price (being HK\$0.80 per Share). Based on all the outstanding CBs in issue, the total CB Offer is valued at a maximum of approximately HK\$41,481,481.

BONDHOLDERS UNDERTAKINGS

Reference is made to the joint announcements of the Company and SMI Holdings dated 8 August 2016 and 5 September 2016 in relation to, among other things, the Cheer Hope CB and Ever Ascend CB.

Pursuant to the Cheer Hope CB subscription agreement, subject to terms and conditions thereto, the Company shall issue convertible bonds at an aggregate principal amount of HK\$65,000,000 at the conversion price of HK\$0.675 per conversion Share (subject to adjustment) to Cheer Hope with conversion rights to convert up to 96,296,296 conversion Shares.

LETTER FROM THE BOARD

Pursuant to the Ever Ascend CB subscription agreement and subject to terms and conditions thereto, the Company shall issue convertible bonds at an aggregate principal amount of HK\$100,000,000 at the conversion price of HK\$0.675 per conversion Share (subject to adjustment) to Ever Ascend with conversion rights to convert up to 148,148,148 conversion Shares.

On 27 September 2016, each of Cheer Hope and Ever Ascend has respectively given the Bondholders Undertakings to the Offeror and the Company in respect of its intention to the Offers in the event that the Cheer Hope CB and/or the Ever Ascend CB are issued before the close of the Offers. Pursuant to the Bondholders Undertakings, each of Cheer Hope and Ever Ascend irrevocably undertakes that it will not (i) accept the CB Offer or the Share Offer in relation to the Cheer Hope CB or its 96,296,296 conversion Shares upon conversion or Ever Ascend CB or its 148,148,148 conversion Shares upon conversion (as the case may be); and (ii) transfer, dispose or create encumbrances (or enter into agreement to transfer, dispose or create encumbrances) in respect of their respective convertible bonds or their interests in the Shares after conversion and prior to the close of the Offers. For the avoidance of doubt, Cheer Hope has only given irrevocable undertakings for the Cheer Hope CB which does not apply to the existing CBs in the principal amount of HK\$35,000,000 held by Cheer Hope.

Condition to the Offers

The Offers are conditional on the number of Shares in respect of acceptances of the Share Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the First Closing Date (or such later time or date as the Offeror may, subject to the Takeovers Code, decide), together with the Shares already owned by the Offeror and parties acting in concert with it and acquired or agreed to be acquired before or during the Offer Period, resulting in the Offeror and parties acting in concert with it holding more than 50% of the voting rights of the Company in accordance with the Takeovers Code.

The Offeror will issue an announcement in relation to the revision, extension or lapse of the Offers or the fulfilment of the condition to the Offers in accordance with the Takeovers Code and the Listing Rules. The latest time on which the Offeror can declare the Offers unconditional as to acceptance is 7:00 p.m. on the 60th day after the despatch of this Composite Document (or such later date to which the Executive may consent).

FURTHER INFORMATION ON THE OFFERS

Please also refer to the “Letter from Emperor Capital” contained in this Composite Document and Appendix I to this Composite Document for further information in relation to the Offers, the availability of the Offers to the overseas Independent Shareholders and Bondholders, taxation and acceptance and settlement procedures of the Offers.

LETTER FROM THE BOARD

INFORMATION OF THE GROUP

The Group is principally engaged in the investments in the production and distribution of films, investments in the production and distribution of television dramas, creations, production and distribution of new media contents, production and distribution of online and film advertisements and agency operations for films, directors, scriptwriters and artists, and travel business.

Your attention is drawn to Appendices II and IV to this Composite Document which contain further financial and general information of the Group.

SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the shareholding structure of the Company (i) immediately before completion of the Purchases; and (ii) as at the Latest Practicable Date:

	(i) immediately before completion of the Purchases		(ii) as at the Latest Practicable Date	
	<i>No. of Shares</i>	<i>%</i>	<i>No. of Shares</i>	<i>%</i>
The Offeror and parties acting in concert with it	242,952,281	29.99	367,477,281	45.36
Public Shareholders	567,105,403	70.01	442,580,403	54.64
	<u>810,057,684</u>	<u>100.00</u>	<u>810,057,684</u>	<u>100.00</u>

INFORMATION ON THE OFFEROR

Your attention is drawn to the section headed “Information of the Offeror” in the “Letter from Emperor Capital” contained in this Composite Document.

INTENTIONS OF THE OFFEROR REGARDING THE GROUP AND ITS EMPLOYEES

Please refer to the section headed “Intentions of the Offeror regarding the Group and its Employees” in the “Letter from Emperor Capital” for detailed information on the Offeror’s intention on the business and management of the Group.

The Board is aware of the intentions of the Offeror in regards to the Group and its employees and will render cooperation and support to the Offeror.

LETTER FROM THE BOARD

MAINTAINING THE LISTING STATUS OF THE COMPANY

As mentioned in the “Letter from Emperor Capital”, it is the intention of the Offeror to maintain the listing of Shares on the Stock Exchange after the close of the Offers. The sole director of the Offeror and any new Director(s) to be appointed to the Board will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that a sufficient public float exists in the Shares.

The Stock Exchange has stated that if, at the close of the Offers, less than 25% of the Shares are held by the public, or if the Stock Exchange believes that:

- a false market exists or may exist in the trading of the Shares; or
- there is insufficient Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend trading in the Shares until a level of sufficient public float is attained.

RECOMMENDATION

Independent Shareholders and Bondholders are advised to read the recommendation of the Independent Board Committee set out on pages 27 to 28 of this Composite Document and the advice of the Independent Financial Adviser set out on pages 29 to 45 of this Composite Document before deciding on the actions to be taken on the Offers.

ADDITIONAL INFORMATION

You are advised to read this Composite Document together with the accompanying Forms of Acceptance in respect of the acceptance and settlement procedures of the Offers. Your attention is also drawn to the additional information contained in the appendices to this Composite Document.

In considering what action to take in connection with the Offers, you should also consider your own tax positions, if any, and in case of any doubt, consult your professional advisers.

Yours faithfully,
By and on behalf of the Board
SMI CULTURE & TRAVEL GROUP HOLDINGS LIMITED
Wang Fei
Chairman & Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Set out below is the text of the letter of recommendation from the Independent Board Committee in respect of the Offers.



星美文旅

SMI Culture & Travel Group Holdings Limited **星美文化旅遊集團控股有限公司**

(formerly known as SMI Culture Group Holdings Limited 星美文化集團控股有限公司)

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 2366)

29 September 2016

To the Independent Shareholders and the Bondholders,

Dear Sir or Madam,

**MANDATORY CONDITIONAL CASH OFFERS BY
EMPEROR CAPITAL LIMITED
FOR AND ON BEHALF OF SMI INVESTMENT (HK) LIMITED
TO ACQUIRE ALL ISSUED SHARES AND
ALL OUTSTANDING CONVERTIBLE BONDS OF
SMI CULTURE & TRAVEL GROUP HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED
BY SMI INVESTMENT (HK) LIMITED
AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

We refer to the composite offer and response document dated 29 September 2016 jointly issued by the Offeror, SMI Holdings and the Company (the “**Composite Document**”) of which this letter forms part. Capitalised terms used in this letter have the same meanings as those defined in the Composite Document, unless the context requires otherwise.

We have been appointed by the Board to form the Independent Board Committee to consider the terms of the Offers and to make a recommendation to you as to whether, in our opinion, the terms of the Offers are fair and reasonable so far as the Independent Shareholders and the Bondholders are concerned, and as to acceptance thereof.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

BaoQiao has been appointed as the Independent Financial Adviser to advise us in respect of the terms of the Offers and as to acceptance thereof. Details of its advice and the principal factors considered by it in arriving at its advice and recommendation are set out in the “Letter from BaoQiao” in the Composite Document.

We also wish to draw your attention to the “Letter from Emperor Capital”, the “Letter from the Board” and the additional information set out in the appendices to the Composite Document.

RECOMMENDATION

Taking into account the terms of the Offers and the independent advice from BaoQiao, and the principal factors and reasons taken into account in arriving at its recommendation, we consider that the terms of the Offers are fair and reasonable so far as the Independent Shareholders and the Bondholders are concerned. Accordingly, we recommend the Independent Shareholders and the Bondholders, as the case may be, to accept the Offers.

The Independent Shareholders and the Bondholders are recommended to read the full text of the “Letter from BaoQiao” in this Composite Document. Notwithstanding our recommendation, the Independent Shareholders and the Bondholders should consider carefully the terms and conditions of the Offers.

If in any doubt, the Independent Shareholders and the Bondholders should consult their own professional advisers for professional advice.

Yours faithfully,
Independent Board Committee

SMI Culture & Travel Group Holdings Limited

Du Jiang	Liu Xianbo	Wu Chieng-Chiang
<i>Independent non-executive Director</i>	<i>Independent non-executive Director</i>	<i>Independent non-executive Director</i>

LETTER FROM BAOQIAO

The following is the full text of the letter of advice from BaoQiao Partners Capital Limited to the Independent Board Committee, the Independent Shareholders and the Bondholders, which has been prepared for the purpose of inclusion in this Composite Document.



BAOQIAO PARTNERS CAPITAL LIMITED

Unit 501, 5/F, Tower 1, Admiralty Centre,
18 Harcourt Road, Admiralty, Hong Kong

29 September 2016

*To the Independent Board Committee, the Independent Shareholders and
the Bondholders of SMI Culture & Travel Group Holdings Limited*

Dear Sir or Madam,

**MANDATORY CONDITIONAL CASH OFFERS BY
EMPEROR CAPITAL LIMITED
FOR AND ON BEHALF OF SMI INVESTMENT (HK) LIMITED
TO ACQUIRE ALL ISSUED SHARES AND
ALL OUTSTANDING CONVERTIBLE BONDS OF
SMI CULTURE & TRAVEL GROUP HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED
BY SMI INVESTMENT (HK) LIMITED
AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee, the Independent Shareholders and the Bondholders in relation to the Offers, details of which are set out in the letter from the Board (“**Letter from the Board**”) contained in the Composite Document of the Company dated 29 September 2016 issued to the Shareholders (the “**Composite Document**”), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Composite Document, unless otherwise specified.

Reference is made to the Joint Announcement. On 5 September 2016 (after trading hours), the Company was informed by the Offeror that on 5 September 2016, (i) the Offeror has purchased 335,000 Shares at prices ranging from HK\$0.60 to HK\$0.61 per Share from the open market, which were subsequently sold by the Offeror at HK\$0.61 each on the open market; and (ii) the Offeror has purchased 21,030,000 Shares at HK\$0.70 each from the open market. Prior to the Purchases, the Offeror was interested in 242,952,281 Shares, representing approximately 29.99% of the issued share capital of the Company. Upon completion of the Second Purchase on 7 September 2016, the Offeror was interested in 263,982,281 Shares, representing approximately 32.59% of the voting rights of the Company.

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The Offeror subsequently purchased an additional 30,000,000 Shares at prices ranging from HK\$0.78 to HK\$0.79 per Share, 5,000,000 Shares at HK\$0.80 per Share, 20,000,000 Shares at HK\$0.80 per Share, 20,000,000 Shares at HK\$0.80 per Share, 270,000 Shares at HK\$0.80 per Share and 30,000,000 Shares at HK\$0.80 per Share from the open market on 9 September 2016, 13 September 2016, 22 September 2016, 23 September 2016, 26 September 2016 and 27 September 2016 respectively. Upon completion of the additional purchases on 9 September 2016, 13 September 2016, 22 September 2016, 23 September 2016, 26 September 2016 and 27 September 2016 and as at the Latest Practicable Date, the Offeror is interested in 367,477,281 Shares, representing approximately 45.36% of the voting rights of the Company.

Pursuant to Rule 26.1 of the Takeovers Code, the Purchases triggered the obligation for the Offeror to make a mandatory conditional cash offer for all issued Shares and all outstanding CBs (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it) on the terms to be set out in the Composite Document in accordance with the Takeovers Code. Emperor Capital is making the Offers on behalf of the Offeror.

The Independent Board Committee comprising all independent non-executive Directors, namely Mr. Du Jiang, Mr. Liu Xianbo and Mr. Wu Chien-Chiang, has been formed to make recommendations to the Independent Shareholders and the Bondholders as to whether the Share Offer and the CB Offer are, or are not, fair and reasonable and as to acceptance.

We, BaoQiao Partners Capital Limited, have been approved and appointed by the Independent Board Committee as the Independent Financial Adviser to advise the Independent Board Committee, the Independent Shareholders and the Bondholders in this regard.

As at the Latest Practicable Date, we did not have any relationship with or interest in the Group or any other parties that could reasonably be regarded as relevant to our independence. Apart from normal professional fees in connection with this appointment as the Independent Financial Adviser, no other arrangements exist whereby we had received or will receive any fees or benefits from the Group or any other parties that could reasonably be regarded as relevant to our independence. As such, we consider that we are independent pursuant to Rule 2.6 of the Takeovers Code and Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our advice and recommendation to the Independent Board Committee, the Independent Shareholders and the Bondholders, we have relied on the statements, information, opinions and representations contained or referred to in the Composite Document, the annual report of the Company for the year ended 31 December 2014 (the “**2014 Annual Report**”), the annual report of the Company for the year ended 31 December 2015 (the “**2015 Annual Report**”), the interim results announcement of the Company of the 6 months ended 30 June 2016 (the “**2016 Interim Results**”) and the information and representations as provided to us by the Directors and the management of the Company. We have assumed that all information and representations that have been provided by the Directors and the management of the Company, for which they are solely and wholly responsible, are true, accurate and complete in all material respects and not misleading or deceptive at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors and the management of the Company in the Composite Document were reasonably made after due enquiries and careful consideration.

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The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than that relating to the Offeror and parties acting in concert with it) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by the Offeror and parties acting in concert with it) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statements in this Composite Document misleading. We consider that we have been provided with, and we have reviewed, the currently available information and documents which are available under present circumstances to enable us to reach an informed view regarding the Share Offer and the CB Offer, and to justify reliance on the accuracy of the information contained in the Composite Document so as to provide a reasonable basis of our opinion. We have no reason to suspect that any material information has been withheld by the Directors or management of the Company, or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, carried out any independent verification of the information provided by the Company, nor have we conducted any independent investigation into the business or affairs or future prospects of the Group. Our opinion is necessarily based on financial, economic, market and other conditions in effect, and the information made available to us, as at the Latest Practicable Date and Shareholders will be notified of any material changes as soon as possible in accordance with Rule 9.1 of the Takeovers Code. Save for our advice to the Independent Board Committee, the Independent Shareholders and the Bondholders as to whether to accept or reject the Offers, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

We have not considered the tax implications, if any, on the Independent Shareholders and the Bondholders of their acceptance or non-acceptance of the Share Offer and the CB Offer since these are particular to their own individual circumstances, Shareholders and Bondholders should consider their own tax position with regard to the Share Offer and the CB Offer and, if any doubt, should consult their own professional adviser in due course.

This letter of advice is issued to the Independent Board Committee, the Independent Shareholders and the Bondholders solely in connection with their consideration of the Share Offer and the CB Offer, and, except for its inclusion in the Composite Document, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

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PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and advice in respect of the Share Offer and the CB Offer, we have taken into consideration the following principal factors and reasons:

I. Background and financial information of the Group

(a) Business of the Group

The Group is principally engaged in the investments in the production and distribution of films, investments in the production and distribution of television dramas, creations, production and distribution of new media contents, production and distribution of online and film advertisements and agency operations for films, directors, scriptwriters and artists, and travel business.

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(b) *Financial information of the Group*

Set out below are the financial information of the Group as extracted from the consolidated financial statements for the two years ended 31 December 2014 (“**FY2014**”) and 31 December 2015 (“**FY2015**”) and the six months ended 30 June 2016, details of which are set out in the 2014 Annual Report, the 2015 Annual Report and the 2016 Interim Results:

	For the six months ended 30 June		For the year ended 31 December	
	2016	2015	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Audited)	(Restated)
Continuing operations				
Revenue				
— Films investment and distribution	387,701	15,976	166,831	9,935
— Television program related business	9,404	32,740	24,559	27,507
	<u>397,105</u>	<u>48,716</u>	<u>191,390</u>	<u>37,442</u>
Cost of sales	(271,460)	(36,012)	(61,395)	(80,883)
Gross profit/(loss)	125,645	12,704	129,995	(43,441)
Profit/(loss) before taxation	63,075	(24,657)	49,519	(517,539)
Taxation	(31,203)	(5,429)	(36,978)	(1,873)
Profit/(loss) for the year from continuing operations	<u>31,872</u>	<u>(30,086)</u>	<u>12,541</u>	<u>(519,412)</u>
Discontinued operations				
Profit/(loss) for the year from discontinued operations	<u>—</u>	<u>6,061</u>	<u>6,061</u>	<u>(43,843)</u>
Profit/(loss) for the period/year	<u>31,872</u>	<u>(24,025)</u>	<u>18,602</u>	<u>(563,255)</u>
Profit/(loss) for the period/year attributable to the Shareholders	<u>22,716</u>	<u>(23,302)</u>	<u>19,476</u>	<u>(560,689)</u>
	At 30 June		At 31 December	
	2016	2015	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)	(audited)	(audited)
Total assets	1,062,769	615,675	727,656	552,903
Total liabilities	<u>534,806</u>	<u>163,878</u>	<u>233,868</u>	<u>264,753</u>
Net assets	<u>527,963</u>	<u>451,797</u>	<u>493,788</u>	<u>288,150</u>

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FY2014 versus FY2015

(i) Financial performance of the Group

The revenue of the Group from continuing operations entirely derived from the segment of films investment and distribution and the segment of television related business for both FY2014 and FY2015. The revenue for FY2015 was approximately HK\$191.4 million, representing a significant increase of approximately HK\$153.9 million or 411.2% as compared to the revenue of approximately HK\$37.4 million for FY2014. As shown in the above table, the increase in revenue was mainly attributable to the increase of approximately HK\$156.9 million or 1,579.2% in revenue from the segment of films investment and distribution. As disclosed in the 2015 Annual Report, the China movie market recorded impressive box office of over RMB44.0 billion in 2015 and the Group deployed additional resources and commenced twelve production projects, doubling the number in FY2014. And the Group was starting to reap the profit of the film and television investment business and thus further improved the financial performance of the Group.

Gross profit of the Group from continuing operations for FY2015 was approximately HK\$130.0 million, against the gross loss of approximately HK\$43.4 million in FY2014.

Profit for the year from continuing operations for FY2015 recorded approximately HK\$12.5 million, against the loss of approximately HK\$519.4 million in FY2014. The turnaround from loss in FY2014 to profit in FY2015 was mainly attributable to (i) the increase in revenue and gross profit; and (ii) the one-off impairment losses of approximately HK\$252.1 million and approximately HK\$178.6 million in FY2014 in respect of customer contract costs and certain inventories (including cost of scripts, synopses, publication rights, publishing rights, and editing rights purchased and held by the Group for resale in the ordinary course of business) respectively, which were not recurring in nature.

(ii) Financial position of the Group

Net assets of the Group increased by approximately HK\$205.6 million or 71.36% from approximately HK\$288.2 million as at 31 December 2014 to approximately HK\$493.8 million as at 31 December 2015, mainly due to the increase in film rights investment and trade and other receivables and the decrease in other loans.

As at 31 December 2015, the Group's total assets mainly comprised intangible assets of approximately HK\$114.6 million, inventories of approximately HK\$252.2 million, film rights investment of approximately HK\$100.6 million and trade and other receivables of approximately HK\$238.7 million.

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As at 31 December 2015, the total liabilities of the Group were approximately HK\$233.9 million, which mainly comprised trade and other payables of approximately HK\$90.6 million, tax payable of approximately HK\$93.2 million and loan from a shareholder of HK\$50 million.

Six months ended 30 June 2016 versus six months ended 30 June 2015

The Group recorded revenue of approximately HK\$397.1 million for the six months ended 30 June 2016, representing an approximately 7-fold increase compared to approximately HK\$48.7 million for the six months ended 30 June 2015, mainly attributable to the Group's return on investment in the production of films and television programmes of approximately HK\$387.7 million (2015: approximately HK\$16.0 million), and TV program related income of approximately HK\$9.4 million (2015: approximately HK\$32.7 million).

Gross profit for the six months ended 30 June 2016 was approximately HK\$125.6 million whereas the gross profit for the six months ended 30 June 2015 was approximately HK\$12.7 million. The increase in gross profit was mainly due to the increased revenue for the six months ended 30 June 2016 and the amortisation of the Group's intangible assets decreased from approximately HK\$8.7 million for the six months ended 30 June 2015 to approximately HK\$7.2 million for the six months ended 30 June 2016.

Profit for the six months ended 30 June 2016 was approximately HK\$31.9 million (whereas the loss for the six months ended 30 June 2015 was approximately HK\$24.0 million). The profit for the period ended 30 June 2016 was mainly arrived at after charging administrative and other operating expenses of approximately HK\$21.1 million (2015: approximately HK\$10.1 million) and finance costs of approximately HK\$10.4 million (2015: approximately HK\$5.0 million).

(c) Prospects of the Group

We understand from the management of the Company that the Chinese film and drama markets had entered a gold period of development and investments in film and television business have been a key growing and expansion strategy of the Group. According to 中國國家新聞出版廣電總局 (the State Administration of Press, Publication, Radio, Film and Television of the PRC), the movie box office of 2015 in China is RMB44.069 billion, representing an increase of 48.7% comparing to 2014. It is the Group's intention to expand the business in the production and distribution of films and television dramas and as announced by the Company on 12 August 2016, the Company is in discussion and/or preparation of production and distribution of five to six movies in the PRC for the coming two years. Subject to further negotiation and implementation timetable, the said movies may be released in 2017 and 2018 respectively and the estimated total investment amount from the Company is about HK\$400 million to HK\$500 million.

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II. Information of the Offeror

As disclosed in the letter from Emperor Capital in the Composite Document, the Offeror is incorporated in Hong Kong with limited liability and is principally engaged in investment in securities. As at the Latest Practicable Date, it is wholly-owned by SMI Holdings, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 198). SMI Holdings is an investment holding company, principally engaged in movie theatre operation, investments in film production and distribution, in-theatre counter sales and online shopping. SMI Holdings is held by Mr. Qin Hui as to approximately 59.79% by himself directly and as to approximately 0.05% through Strategic Media indirectly.

Mr. Qin Hui is a businessman and actively involved in movie/media and entertainment and investment related businesses.

Please refer to the letter from Emperor Capital in the Composite Document for further details of the Offeror.

III. Intention of the Offeror on the Group

As disclosed in the letter from Emperor Capital in the Composite Document, SMI Holdings and the Offeror consider that the Purchases and the Offers provide an opportunity for them to increase their stake and to consolidate control in the Company. The Offeror has confirmed to the Company that it does not intend to cause the Group to change its existing business. The Offeror has no intention to dispose of or re-deploy the fixed assets of the Group other than in the ordinary course of business.

As also disclosed in the letter from Emperor Capital in the Composite Document, as at the Latest Practicable Date, the Offeror does not have any intention, arrangement, agreement, understanding or negotiation on (a) any disposal, termination or scaling down of the existing businesses of the Group; (b) any injection of any new business (other than any existing business of the Group including upstream business, including but not limited to investments and production of films, television dramas, new media contents, online and film advertisements and agency operations for films, directors, scriptwriters and artists, and/or downstream business, including but not limited to distribution of films, television dramas, new media contents, online and film advertisements and cinema operation, in the entertainment industry and travel industry, including but not limited to provision of travel agency services and investment in resort business, which the Group might consider acquiring) to the Group; and (c) any change in the shareholding structure of the Company, other than those contemplated under the Offers. The Offeror also intends to continue the employment of the existing management and employees including the board composition of the Group.

The Offeror will, following the closing of the Offers, conduct a review of the operations of the Group in order to formulate a long-term strategy for the Group and explore other business or investment opportunities for enhancing its future development and strengthening its revenue bases. The Offeror intends that the Group will continue to operate its business in substantially its current state. However, the Offeror reserves the right to make any changes that it deems

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necessary or appropriate to the Group's businesses and operations to better integrate, generate maximum synergy and achieve enhanced economies of scale with the other operations of the Offeror. As at the Latest Practicable Date, the Offeror has not identified any such investment or business opportunities.

As also disclosed in the letter from Emperor Capital in the Composite Document, the Offeror intends the Company to remain listed on the Main Board of the Stock Exchange after the close of the Offers. The sole director of the Offeror and any new Director(s) to be appointed to the Board will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares.

IV. Principal terms of the Offers

Emperor Capital, on behalf of the Offeror, makes the Offers in compliance with the Takeovers Code on the following basis:

Share Offer:

For each Offer ShareHK\$0.80 in cash

The Share Offer will be extended to all Independent Shareholders in accordance with the Takeovers Code. The Offer Shares to be acquired under the Share Offer shall be fully paid and free from all Encumbrances and together with all rights attaching to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid by reference to a record date on or after the date on which the Share Offer is made, that is, the date of despatch of the Composite Document.

CB Offer:

For every HK\$5,000,000 face value of the CBs..... HK\$5,925,925.93 in cash

The CB Offer will apply to all outstanding CBs in issue on the date on which the CB Offer is made and will not apply to any CBs which are or have been converted into Shares prior to the close of the Offers. Should all the outstanding CBs be converted prior to the close of the Offers, additional 51,851,851 conversion Shares shall be issued subject to the Share Offer.

The offer price for the CBs is HK\$5,925,925.93 for every HK\$5,000,000 face value of the CBs, determined in accordance with Rule 13 of the Takeovers Code as the "see-through" consideration for the CBs, being the number of Shares into which the CBs are convertible at conversion price of HK\$0.675 each (being approximately 51,851,851 conversion Shares) multiplied by the Share Offer Price (being HK\$0.80 per Share). As at the Latest Practicable Date, the Company has outstanding CBs at principal amount of HK\$35,000,000 with conversion price of HK\$0.675 held by Cheer Hope, being the sole holder of the CBs. Based on all the outstanding CBs, the total CB Offer is valued at a maximum of approximately HK\$41,481,481.

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Bondholders Undertaking in respect of the intention of the Cheer Hope and Ever Ascend to the Offers

Reference is made to the joint announcements of the Company and SMI Holdings dated 8 August 2016 and 5 September 2016 in relation to, among other things, the Cheer Hope CB and Ever Ascend CB.

Pursuant to the Cheer Hope CB subscription agreement, subject to terms and conditions thereto, the Company shall issue convertible bonds at an aggregate principal amount of HK\$65,000,000 at the conversion price of HK\$0.675 per conversion Share (subject to adjustment) to Cheer Hope with conversion rights to convert up to 96,296,296 conversion Shares.

Pursuant to the Ever Ascend CB subscription agreement, subject to terms and conditions thereto, the Company shall issue convertible bonds at an aggregate principal amount of HK\$100,000,000 at the conversion price of HK\$0.675 per conversion Share (subject to adjustment) to Ever Ascend with conversion rights to convert up to 148,148,148 conversion Shares.

As disclosed in the Letter from Emperor Capital, on 27 September 2016, each of Cheer Hope and Ever Ascend has respectively given the Bondholders Undertakings to the Offeror and the Company in respect of its intention to the Offers in the event that the Cheer Hope CB and/or the Ever Ascend CB are issued before the close of the Offers. Pursuant to the Bondholders Undertakings, each of Cheer Hope and Ever Ascend irrevocably undertakes that it will not (i) accept the CB Offer or the Share Offer in relation to the Cheer Hope CB or its 96,296,296 conversion Shares upon conversion or Ever Ascend CB or its 148,148,148 conversion Shares upon conversion (as the case may be); and (ii) transfer, dispose or create encumbrances (or enter into agreement to transfer, dispose or create encumbrances) in respect of their respective convertible bonds or their interests in the Shares after conversion and prior to the close of the Offers. The above irrevocable undertaking given by Cheer Hope in respect of the Cheer Hope CB does not apply to the outstanding CBs with the principal amount of HK\$35,000,000 held by Cheer Hope.

As disclosed in the Letter from Emperor Capital, save for the CBs which were issued to Cheer Hope on 8 August 2016, the Cheer Hope CB and Ever Ascend CB (which are to be issued subject to its respective terms and conditions), none of Cheer Hope and Ever Ascend had dealt in the Shares or convertible securities, warrants, options or derivatives of the Company during the Relevant Period. Save for the CBs which are held by Cheer Hope, each of Cheer Hope and Ever Ascend did not hold any Shares or convertible securities, warrants, options or derivatives of the Company as at the Latest Practicable Date.

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V. Share Offer Price comparison

(a) Historical price performance and trading liquidity of the Shares

The Share Offer Price of HK\$0.80 per Offer Share represents:

- (i) a premium of approximately 14.29% over the consideration of each Share under the Second Purchase and the closing price of HK\$0.70 per Share as quoted on the Stock Exchange on 5 September 2016, being the Last Trading Day;
- (ii) a premium of approximately 32.01% over the average closing price of approximately HK\$0.606 per Share for the last 5 consecutive trading days immediately prior to and including the Last Trading Day;
- (iii) a premium of approximately 36.52% over the average closing price of approximately HK\$0.586 per Share for the last 10 consecutive trading days immediately prior to and including the Last Trading Day;
- (iv) a premium of approximately 39.86% over the average closing price of approximately HK\$0.572 per Share for the last 30 consecutive trading days immediately prior to and including the Last Trading Day;
- (v) a discount of approximately 1.23% over the closing price of HK\$0.81 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (vi) a premium of approximately 29.66% over the audited consolidated net asset value attributable to the Shareholders of approximately HK\$0.617 per Share as at 31 December 2015, the date to which the latest audited financial results of the Group were made up; and
- (vii) a premium of approximately 23.55% over the unaudited consolidated net asset value attributable to the Shareholders of approximately HK\$0.6475 per Share as at 30 June 2016, the date to which the latest unaudited interim results of the Group were made up.

In order to assess the fairness and reasonableness of the Share Offer Price, we have reviewed the movements in closing price of the Shares for the period commencing from 7 September 2015, being the 12-month period prior to the Last Trading Day, and up to the Latest Practicable date (the “**Review Period**”).

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The chart below shows the daily closing prices of the Shares during the Review Period and the Share Offer Price.

Historical daily closing price per Share



Source: the website of the Stock Exchange

From the commencement of Review Period to the Last Trading Day

The Shares were traded below the Share Offer Price of HK\$0.80 during the commencement of the Review Period until the Last Trading Day (the “**Pre-announcement Review Period**”) with an average of approximately HK\$0.5708. During the Pre-announcement Review Period, the highest closing price was HK\$0.73 per Share on 22 February 2016 and the lowest closing price was HK\$0.43 per Share on 7 September 2015. The Share Offer Price represents a premium of approximately 9.6% and a premium of approximately 86.1% to the highest and lowest closing price of the Share during the Pre-announcement Review Period. The Share Offer Price also represents a premium of approximately 40.2% to the average closing price of the Share during the Pre-announcement Review Period.

From the first trading day of the Shares after the Joint Announcement to the Latest Practicable Date

The closing prices of the Shares were equal to or slightly above the Share Offer Price of HK\$0.80 from the first trading day of the Shares after the date of the Joint Announcement to the Latest Practicable Date (the “**Post-announcement Review Period**”) with an average of approximately HK\$0.8092. During the Post-announcement Review Period, the highest closing price was HK\$0.82 per Share

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on each of 9 September 2016, 14 September 2016 and 19 September 2016 and the lowest closing price was HK\$0.80 per Share on each of 15 September 2016, 20 September 2016, 21 September 2016 and 23 September 2016. The Share Offer Price represents a discount of approximately 2.4% and at par to the highest and lowest closing price of the Share respectively during the Post-announcement Review Period. The Share Offer Price also represents a discount of approximately 1.1% to the average closing price of the Share during the Post-announcement Review Period.

In our opinion, such rise in Share price is probably due to the release of the Joint Announcement and the Offers and market speculation. However, there is no assurance that the Share price will remain at the current level if the Offers close, lapse or do not become unconditional for any reason.

We have also reviewed the historical trading volume of the Shares during the Review Period. The average daily trading volume of the Shares, the percentages of daily trading volume of the Shares as compared to the total number of issued Shares during the Review Period are shown in below table.

Historical average daily trading volume of the Shares

	Total monthly trading volume of Shares	Average daily trading volume of Shares	Approximate % of average daily trading volume to the total issued Shares <i>(Note 1)</i>
2015			
7 September to 30 September	64,877,985	3,816,352	0.47%
October	75,337,371	3,766,869	0.47%
November	98,733,846	4,701,612	0.58%
December	114,733,511	5,215,160	0.64%
2016			
January	42,408,541	2,120,427	0.26%
February	78,913,517	4,384,084	0.54%
March	75,517,002	3,596,048	0.44%
April	182,484,241	9,124,212	1.13%
May	69,542,564	3,311,551	0.41%
June	68,735,670	3,273,127	0.40%
July	78,079,081	3,903,954	0.48%
August	155,900,920	7,086,405	0.87%
1 September to 27 September <i>(Note 2)</i>	282,297,336	18,819,822	2.32%

Source: the website of Stock Exchange

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Notes:

1. The calculation is based on the number of Shares in issue as at the end of each month.
2. The data of September 2016 represents the trading volume for the period from 1 September 2016 to the Latest Practicable Date.

The above table demonstrates that during the Review Period, the percentage of the average daily trading volume of the Shares were in the range of approximately 0.26% to 2.32% with an average of approximately 0.69% of the total number of Shares in issue. The above statistics revealed that trading in the Shares was relatively thin during the Review Period and the Shares were generally illiquid in the open market. Given the trading of the Shares is relatively illiquid, the Share Offer presents the Independent Shareholders an opportunity to dispose their Shares without exerting downward pressure on the market price of the Shares.

(b) Comparable analysis

In order to further assess the fairness and reasonableness of the Share Offer, we have considered three commonly adopted approaches in evaluation of a company, namely price-to-earnings ratio (the “**PER**”), dividend yield and price-to-book ratio (the “**PBR**”), which are commonly adopted trading multiple analyses. Given the Group had not declared any dividend to the Shareholders for the three years ended 31 December 2015, we consider that the dividends approach is not applicable for assessing the value of the Group and thus the PER and PBR would be the most appropriate and relevant approach.

Based on the Share Offer Price of HK\$0.80 per Offer Share and the total number of issued Shares of 810,057,684 as at the Latest Practicable Date, the Company is valued at approximately HK\$648,046,147. The PBR of the Company implied by the Share Offer Price is approximately 1.3 times (the “**Implied P/B Ratio**”) based on the equity attributable to Shareholders of the Company of approximately HK\$499,870,000 as at 31 December 2015 and the PER of the Company implied by the Share Offer Price is approximately 33.27 times based on the profit attributable to Shareholders of the Company of approximately HK\$19,476,000 for the year ended 31 December 2015.

We have attempted to identify the comparable companies which are (i) listed on the Stock Exchange; (ii) principally engaged in same or similar business of the Group and generating more than 50% revenue from the segment(s) of production and distribution in films and television programs; and (iii) with the market capitalization below HK\$1 billion as the comparable size of the Company. Based on the above-mentioned criteria, we have identified two comparable companies (the “**Comparables**”) as valuation benchmarks and we consider such Comparables are fair and representative samples for comparison purpose and represent an exhaustive list of relevant comparable companies based on the said criteria and is sufficient for assessing the fairness and reasonableness of the Share Offer Price. However, both of the Comparables recorded net loss during the latest audited financial year and therefore, the PER approach is impracticable to use and we conducted comparisons based on PBR approach only.

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Details of the Comparables are summarised in the following table:

Company name (Stock code)	Principal Business	Latest Audited Net Asset Value (HK\$ Mln)	Market Cap as at Latest Practicable Date (HK\$ Mln)	PBR (times)
See Corporation Ltd. (491)	Film and TV programme production, event production, artiste and model management, music production, a pay TV operation and investment in securities.	884	533	0.60
Pegasus Entertainment Holdings Ltd. (1326)	Films and television series production, distribution and licensing of film rights.	357	795	2.23
			Maximum	2.23
			Minimum	0.60
			Average	1.41
			Market Cap as at Latest Audited Net Asset Value (HK\$ Mln)	PBR (times)
The Company		500	648⁽¹⁾	1.30

Source: the website of the Stock Exchange

Notes:

- The market capitalization of the Company is calculated based on the Share Offer Price of HK\$0.80 per Offer Share to facilitate our comparison of the PBR of the Company as represented by the Share Offer Price to the PBR of the Comparables.

We noticed that the PBRs of the Comparables range from 0.60 times to 2.23 times, with an average of approximately 1.41 times. Given that the implied PBR of the Share Offer is approximately 1.30 times, the implied PBR of the Share Offer is within the said PBR range of the Comparables. As such, we consider that the Share Offer Price is fair and reasonable based on the comparison approach.

LETTER FROM BAOQIAO

VI. The CB Offer

As at the Latest Practicable Date, the Company has outstanding CBs in the principal amount of HK\$35,000,000 with conversion price of HK\$0.675 held by Cheer Hope, being the sole holder of the CBs. Based on all the outstanding CBs, the CB Offer is valued at a maximum of approximately HK\$41,481,481.

As disclosed in the Letter from Emperor Capital, on 27 September 2016, each of Cheer Hope and Ever Ascend has respectively given the Bondholders Undertakings to the Offeror and the Company in respect of its intention to the Offers. Pursuant to the Bondholders Undertakings, each of Cheer Hope and Ever Ascend irrevocably undertakes that it will not (i) accept the CB Offer or the Share Offer in relation to the Cheer Hope CB or its 96,296,296 conversion Shares upon conversion or Ever Ascend CB or its 148,148,148 conversion Shares upon conversion (as the case may be); and (ii) transfer, dispose or create encumbrances (or enter into agreement to transfer, dispose or create encumbrances) in respect of their respective convertible bonds or their interests in the Shares after conversion and prior to the close of the Offers. The above irrevocable undertaking given by Cheer Hope in respect of the Cheer Hope CB does not apply to the outstanding CBs with the principal amount of HK\$35,000,000 held by Cheer Hope.

We notice that the CB Offer Price was determined in accordance with Rule 13 of the Takeovers Code as the “see-through” consideration for the CBs, being the number of Shares into which the CBs are convertible at conversion price of HK\$0.675 each (being approximately 51,851,851 conversion Shares) multiplied by the Share Offer Price (being HK\$0.80 per Share). As such, we consider that the CB Offer Price is fair and reasonable so far as the Bondholders are concerned.

RECOMMENDATION

Having considered the principal factors and reasons as discussed above, in particular:

- (i) the Share Offer Price represents a premium over each of the closing price of the Shares on the Last Trading Day and the average closing price per Share as quoted on the Stock Exchange for the last five (5), ten (10) and thirty (30) consecutive trading days up to and including the Last Trading Day respectively. The Share Offer Price also represents a premium of approximately 29.66% over the audited consolidated net asset value attributable to the Shareholders of approximately HK\$0.617 per Share as at 31 December 2015, the date to which the latest audited financial results of the Group were made up and a premium of approximately 23.55% over the unaudited consolidated net asset value attributable to the Shareholders of approximately HK\$0.6475 per Share as at 30 June 2016, the date to which the latest unaudited interim results of the Group were made up;
- (ii) the Share Offer Price represents a premium of approximately 40.2%, 9.6% and 86.1% to the average closing price, the highest closing price and the lowest closing price of the Shares during the Pre-announcement Review Period and is higher than the closing prices during the Pre-announcement Review Period;

LETTER FROM BAOQIAO

- (iii) Although the closing prices of the Shares were equal to or slightly above the Share Offer Price of HK\$0.80 during the Post-announcement Review Period, it is probably due to the release of the Joint Announcement and the Offers and market speculation. However, there is no assurance that the Share price will remain at the current level if the Offers close, lapse or do not become unconditional for any reason;
- (iv) Given the trading of the Shares is relatively illiquid, the Share Offer presents the Independent Shareholders an opportunity to dispose their Shares without exerting downward pressure on the market price of the Shares; and
- (v) the Implied PBR of the Company of approximately 1.30 times is within the PBR range of 0.60 times to 2.23 times of the Comparables,

we consider that the terms of the Share Offer are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to accept the Share Offer.

As the CB Offer Price was determined in accordance with Rule 13 of the Takeovers Code as the “see-through” consideration for the CBs, we consider that the terms of the CB Offer are fair and reasonable so far as the Bondholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Bondholders to accept the CB Offer.

We would also like to remind the Independent Board Committee to remind the Independent Shareholders to closely monitor the market price and liquidity of the Shares during the Offer Period, and consider selling their Shares in the open market, where possible, instead of accepting the Share Offer, if the net proceeds from such sales exceed the net amount receivable under the Share Offer.

Yours faithfully,
For and on behalf of
BaoQiao Partners Capital Limited

Monica Lin
Managing Director

PROCEDURES FOR ACCEPTANCE OF THE OFFERS**The Share Offer**

- (a) To accept the Share Offer, you should complete and sign the accompanying **WHITE** Form of Share Offer Acceptance in accordance with the instructions printed thereon, which form part of the terms and conditions of the Share Offer.
- (b) If the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in your name, and you wish to accept the Share Offer, you must send the duly completed and signed **WHITE** Form of Share Offer Acceptance together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for not less than the number of Shares in respect of which you intend to accept the Share Offer, by post or by hand, to the Registrar, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, as soon as possible and in any event no later than 4:00 p.m. on the First Closing Date or such later time and/or date as the Offeror may determine and announce with the consent of the Executive and in accordance with the Takeovers Code.
- (c) If the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the Share Offer in respect of your holding of Shares (whether in full or in part), you must either:
 - (i) lodge your Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorising it to accept the Share Offer on your behalf and requesting it to deliver the duly completed **WHITE** Form of Share Offer Acceptance together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or
 - (ii) arrange for the Shares to be registered in your name by the Company through the Registrar, and deliver the duly completed and signed **WHITE** Form of Share Offer Acceptance together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or

- (iii) if your Shares have been lodged with your licensed securities dealer/registered institution in securities/custodian bank through CCASS, instruct your licensed securities dealer/registered institution in securities/custodian bank to authorise HKSCC Nominees Limited to accept the Share Offer on your behalf on or before the deadline set by HKSCC Nominees Limited. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer/registered institution in securities/custodian bank for the timing on the processing of your instruction, and submit your instruction to your licensed securities dealer/registered institution in securities/custodian bank as required by them; or
- (iv) if your Shares have been lodged with your investor participant's account maintained with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set by HKSCC Nominees Limited.
- (d) If the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are not readily available and/or is/are lost, as the case may be, and you wish to accept the Share Offer in respect of your Shares, the **WHITE** Form of Share Offer Acceptance should nevertheless be completed and delivered to the Registrar together with a letter stating that you have lost one or more of your Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, it/they should be forwarded to the Registrar as soon as possible thereafter. If you have lost your Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title, you should also write to the Registrar for a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.
- (e) If you have lodged transfer(s) of any of your Shares for registration in your name and have not yet received your Share certificate(s), and you wish to accept the Share Offer in respect of your Shares, you should nevertheless complete and sign the **WHITE** Form of Share Offer Acceptance and deliver it to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will be deemed to be an irrevocable authority to the Offeror and/or Emperor Capital or their respective agent(s) to collect from the Company or the Registrar on your behalf the relevant Share certificate(s) when issued and to deliver such Share certificate(s) to the Registrar on your behalf and to authorise and instruct the Registrar to hold such Share certificate(s), subject to the terms and conditions of the Share Offer, as if it was/they were delivered to the Registrar with the **WHITE** Form of Share Offer Acceptance.

- (f) Acceptance of the Share Offer will be treated as valid only if the completed **WHITE** Form of Share Offer Acceptance is received by the Registrar by no later than 4:00 p.m. on the First Closing Date (or such later time and/or date as the Offeror may determine and announce with the consent of the Executive and in accordance with the Takeovers Code) and the Registrar has recorded the acceptance and any relevant documents required by the Takeovers Code have been so received, and is:
- (i) accompanied by the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if that/those Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) is/are not in your name, such other documents (e.g. a duly stamped transfer of the relevant Share(s) in blank or in favour of the acceptor executed by the registered holder) in order to establish your right to become the registered holder of the relevant Shares; or
 - (ii) from a registered Shareholder or his personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to the Shares which are not taken into account under another sub-paragraph of this paragraph (f)); or
 - (iii) certified by the Registrar or the Stock Exchange.
- (g) If the **WHITE** Form of Share Offer Acceptance is executed by a person other than the registered Shareholder, appropriate documentary evidence of authority (e.g. grant of probate or power of attorney) to the satisfaction of the Registrar must be produced.
- (h) No acknowledgement of receipt of any **WHITE** Form of Share Offer Acceptance, Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

The CB Offer

- (a) If you accept the CB Offer and the certificate(s) of the CBs and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) is/are in your name, you should complete the **BLUE** Form of CB Offer Acceptance in accordance with the instructions printed thereon in respect of the outstanding principal amount of the CBs held by you that you wish to tender under the CB Offer, which instructions form part of the terms and conditions of the CB Offer.

- (b) If your CBs are registered in the name of a nominee, you should instruct your nominee to accept the CB Offer on your behalf on or before the deadline for their acceptance of instructions. Your nominee should lodge the certificate(s) of the CBs and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) together with the **BLUE** Form of CB Offer Acceptance, duly completed in accordance with the instructions printed thereon in respect of the outstanding principal amount of the CBs tendered under the CB Offer, which instructions form part of the terms and conditions of the CB Offer.
- (c) The completed **BLUE** Form of CB Offer Acceptance should be forwarded, together with the relevant certificate(s) of the CBs and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) which you intend to accept the CB Offer, by post or by hand to the Company at 19/F, Prosperity Tower, No. 39 Queen's Road Central, Central, Hong Kong, as soon as possible but in any event no later than 4:00 p.m. on the First Closing Date or such later time and/or date as the Offeror may determine and announce with the consent of the Executive and in accordance with the Takeovers Code.
- (d) No acknowledgement of receipt of any **BLUE** Form of CB Offer Acceptance and/or certificate(s) of the CBs and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

SETTLEMENT OF THE OFFERS

The Share Offer

Provided that a valid **WHITE** Form of Share Offer Acceptance and the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are complete and in good order in all respects and have been received by the Registrar before the close of the Share Offer, a cheque for the amount due to each of the Independent Shareholders who accepts the Share Offer less the seller's ad valorem stamp duty in respect of the Shares tendered by it/him/her or it/his/her agent(s) under the Share Offer will be despatched to such Independent Shareholder by ordinary post at its/his/her own risk as soon as possible but in any event within seven Business Days following (i) the date of receipt of all the relevant documents by the Registrar to render such acceptance complete and valid or (ii) the date on which the Offers become or are declared unconditional in all respects, whichever is the later.

Settlement of the consideration to which any accepting Independent Shareholder is entitled under the Share Offer will be implemented in full in accordance with the terms of the Share Offer (save with respect to the payment of the seller's ad valorem stamp duty), without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such accepting Independent Shareholder.

No fractions of a cent will be payable and the amount of cash consideration payable to an Independent Shareholder who accepts the Share Offer will be rounded up to the nearest cent.

The CB Offer

Provided that a valid **BLUE** Form of CB Offer Acceptance and the relevant certificate(s) of the CBs and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are complete and in good order in all respects and have been received by the Company before the close of the CB Offer, a cheque for the amount due to each of the Bondholders who accepts the CB Offer in respect of the CBs tendered by it/him/her or it/his/her nominee(s) under the CB Offer will be despatched to such Bondholder by ordinary post at its/his/her own risk as soon as possible but in any event within seven Business Days following (i) the date of receipt of all the relevant documents by the Company to render such acceptance complete and valid or (ii) the date on which the Offers become or are declared unconditional in all respects, whichever is the later.

Settlement of the consideration to which any accepting Bondholder is entitled under the CB Offer will be implemented in full in accordance with the terms of the CB Offer, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such accepting Bondholder.

No fractions of a cent will be payable and the amount of cash consideration payable to a Bondholder who accepts the CB offer will be rounded up to the nearest cent.

ACCEPTANCE PERIOD AND REVISIONS

- (a) In order to be valid for the Offers, the **WHITE** Form of Share Offer Acceptance and the **BLUE** Form of CB Offer Acceptance must be received by the Registrar (in respect of the Share Offer) or the Company (in respect of the CB Offer) in accordance with the instructions printed thereon by 4:00 p.m. on the First Closing Date or such later time and/or date as the Offeror may determine and announce with the consent of the Executive and in accordance with the Takeovers Code.
- (b) Unless the Offers have previously been revised or extended with the consent of the Executive and in accordance with the Takeovers Code, to be valid, the Forms of Acceptance must be received by the Registrar or the Company (as the case may be) by 4:00 p.m. on the First Closing Date in accordance with the instructions printed on the Forms of Acceptance. The Offers are conditional upon the Offeror having received valid acceptances in respect of the Share Offer which, together with the Shares already acquired by the Offeror and parties acting in concert with it before or during the Offer Period, will result in the Offeror and any parties acting in concert with it holding more than 50% of the voting rights of the Company. Pursuant to the Takeovers Code, where the Offers become or are declared unconditional, the Offers will remain open for acceptance for not less than 14 days thereafter. The Offeror will make an announcement as and when the Offers become or are declared unconditional.

- (c) If the Offers are extended, the announcement of such extension will state the next closing date or if the Offers are unconditional as to acceptances, the announcement will contain a statement that the Offers will remain open until further notice. In the latter case, at least 14 days' notice in writing must be given to the Independent Shareholders and Bondholders before the Offers are closed and an announcement must be published. If, in the course of the Offers, the Offeror revises the terms of the Offers, all Independent Shareholders and Bondholders, whether or not they have already accepted the Offers, will be entitled to accept the revised Offers under the revised terms. The revised Offers must be kept open for at least 14 days following the date on which the revised offer document(s) are posted and shall not close earlier than the First Closing Date.
- (d) If the First Closing Date is extended, any references in this Composite Document and the Forms of Acceptance to the First Closing Date shall, except where the context otherwise requires, be deemed to refer to the subsequent closing date.

ANNOUNCEMENTS

By 6:00 p.m. on the First Closing Date (or such later time and/or date as the Executive may in exceptional circumstances permit), the Offeror must inform the Executive and the Stock Exchange of its decision in relation to the revision, extension or expiry or unconditionality of the Offers. The Offeror must publish an announcement on the Stock Exchange's website by 7:00 p.m. on the First Closing Date stating the results of the Offers and whether the Offers have been revised or extended, has expired or has become or been declared unconditional.

The announcement will state the total number of Shares and the amount of CBs and rights over Shares:

- a. for which acceptances of the Offers have been received;
- b. held, controlled or directed by the Offeror and parties acting in concert with it before the Offer Period; and
- c. acquired by the Offeror and parties acting in concert with it during the Offer Period.

The announcement will also include details of any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which the Offeror or parties acting in concert with it has borrowed or lent, save for any borrowed securities which have been either on-lent or sold.

The announcement will also specify the percentages of the issued share capital of the Company, and the percentages of voting rights, represented by these numbers.

In computing the total number of Shares and the amount of CBs represented by acceptances, only valid acceptances that are complete, in good order and fulfill the acceptance conditions set out in this Appendix I, and which have been received by the Registrar (in respect of the Share Offer) or the Company (in respect of the CB Offer) respectively no later than 4:00 p.m. on the First Closing Date, being the latest time and date for acceptance of the Offers, shall be included.

As required under the Takeovers Code, all announcements in relation to the Offers will be made in accordance with the requirements of the Takeovers Code and the Listing Rules.

NOMINEE REGISTRATION

To ensure equality of treatment of all Independent Shareholders and Bondholders, those Independent Shareholders and Bondholders who hold Shares and CBs as nominees on behalf of more than one beneficial owner should, as far as practicable, treat the holding of such beneficial owners separately. In order for beneficial owners of Shares and CBs, whose investments are registered in the names of nominees, to accept the Offers, it is essential that they provide instructions of their intentions with regard to the Offers to their nominees.

RIGHT OF WITHDRAWAL

The Offers are conditional upon fulfilment of the condition set out in the “Letter from Emperor Capital” in this Composite Document. Acceptances of the Offers tendered by the Independent Shareholders and Bondholders or by their agent(s) on their behalf, shall be irrevocable and cannot be withdrawn, except in the circumstances set out in the following paragraph or in compliance with Rule 17 of the Takeovers Code, which provides that an acceptor of the Offers shall be entitled to withdraw his/her/its consent within 21 days from the First Closing Date if the Offers have not by then become unconditional as to acceptances. An acceptor of the Offers may withdraw his/her/its acceptance by lodging a notice in writing signed by the acceptor (or his/her/its agent duly appointed in writing and evidence of whose appointment is produced together with the notice) to the Registrar (in respect of the Share Offer) or the Company (in respect of the CB Offer).

Furthermore, in the circumstances set out in Rule 19.2 of the Takeovers Code (which is to the effect that if the Offeror is unable to comply with any of the requirements of making announcements relating to the Offers as described under the paragraph headed “Announcements” above), the Executive may require that acceptors be granted a right of withdrawal, on terms acceptable to the Executive, until such requirements can be met.

In such case, when the Independent Shareholder(s) and Bondholder(s) withdraw their acceptance(s), the Offeror shall, as soon as possible but in any event within 10 days thereof, return by ordinary post the Share certificate(s) and/or transfer receipt(s) and/or certificate(s) of the CBs and/or any other document(s) of title (and/or any indemnity or indemnities provided in respect thereof) lodged with the Forms of Acceptance to the relevant Independent Shareholder(s) and Bondholder(s) at their own risks.

Save as aforesaid, acceptances of the Offers shall be irrevocable and not capable of being withdrawn.

STAMP DUTY

In Hong Kong, the seller's ad valorem stamp duty arising in connection with acceptances of the Share Offer will be payable by the relevant Independent Shareholders at a rate of 0.1% of (i) the market value of the Offer Shares; or (ii) the consideration payable by the Offeror in respect of the relevant acceptances of the Share Offer, whichever is higher, will be deducted from the cash amount payable by the Offeror to such Independent Shareholder on acceptance of the Share Offer. The Offeror will arrange for payment of the seller's ad valorem stamp duty on behalf of relevant Independent Shareholders accepting the Share Offer and will pay the buyer's ad valorem stamp duty in connection with the acceptances of the Share Offer and the transfer of the Offer Shares in accordance with the Stamp Duty Ordinance.

No stamp duty is payable in connection with the acceptances of the CB Offer.

OVERSEAS SHAREHOLDERS AND OVERSEAS BONDHOLDERS

The Offeror intends to make the Offers available to all Independent Shareholders and Bondholders, including those who are resident outside Hong Kong. The availability of the Offers to persons not resident in Hong Kong may be affected by the laws of the relevant overseas jurisdictions. The making of the Offers to persons with a registered address in jurisdictions outside Hong Kong may be prohibited or limited by the laws or regulations of the relevant jurisdictions. Such Independent Shareholders and/or Bondholders who are citizens, residents or nationals of a jurisdiction outside Hong Kong should observe any applicable legal or regulatory requirements and, where necessary, seek legal advice. Persons who are residents, citizens or nationals outside Hong Kong should inform themselves about and observe, at their own responsibility, any applicable laws, regulations, requirements and restrictions in their own jurisdictions in connection with the acceptance of the Offers, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with the other necessary formalities and the payment of any issue, transfer or other fares from the accepting Independent Shareholder(s) and/or Bondholder(s) due in such jurisdiction.

Any acceptance by the Independent Shareholders and/or the Bondholders and the beneficial owners of the Shares and CBs who are citizens, residents or nationals of a jurisdiction outside Hong Kong will be deemed to constitute a representation and warranty from such persons to the Offeror that the local laws and requirements have been complied with and such acceptance shall be valid and binding in accordance with all applicable laws. The Independent Shareholders and/or the Bondholders should consult their respective professional advisers if in doubt. The Independent Shareholders and/or the Bondholders who are in doubt as to the action they should take should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional advisers.

TAX ADVICE

The Independent Shareholders and the Bondholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Offers. None of the Offeror, parties acting in concert with the Offeror, the Company and their respective ultimate beneficial owners, directors, officers, advisers, agents or associates or any other person involved in the Offers accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offers.

GENERAL

- (a) All communications, notices, the Forms of Acceptance, Share certificates, certificates of CBs, transfer receipts, other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and remittances to be delivered by or sent to or from the Independent Shareholders and the Bondholders will be delivered by or sent to or from them, or their designated agents, by ordinary post at their own risk. Such communications, notices, documents and remittances will be sent to the Independent Shareholders and the Bondholders at their addresses as appeared in the register of members or register of Bondholders (as the case may be) of the Company. None of the Offeror and parties acting in concert with it, the Company, Emperor Capital, BaoQiao, the Registrar or any of their respective ultimate beneficial owners, directors, officers, agents or associates or any other person involved in the Offers will be responsible for any loss or delay in transmission or any other liabilities that may arise as a result thereof.
- (b) The provisions set out in the Form(s) of Acceptance form part of the terms and conditions of the Offers.
- (c) The accidental omission to despatch this Composite Document and/or Form(s) of Acceptance or any of them to any person to whom the Offers are made will not invalidate the Offers in any way.
- (d) The Offers are, and all acceptances will be, governed by and construed in accordance with the laws of Hong Kong.
- (e) Due execution of the Form(s) of Acceptance will constitute an irrevocable authority to the Offeror and/or Emperor Capital (or such person or persons as the Offeror and/or Emperor Capital may direct) to complete and execute any document on behalf of the person accepting the Offers and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror (or such person or persons as it may direct) the Shares and the CBs in respect of which such person has accepted the Offers.

- (f) Acceptance of the Offers by the Independent Shareholders and the Bondholders will be deemed to constitute a warranty by such person(s) to the Offeror that such Shares and CBs acquired under the Offers are sold or tendered by the Independent Shareholders and the Bondholders free from all Encumbrances or similar third party rights or claims of any kind and together with all rights accruing or attaching thereto on the date on which the Offers are made or subsequently becoming attached to them, including the right to receive in full all dividends and other distributions, if any, recommended, declared, made or paid by reference to a record date on or after the date on which the Offers are made that is, the date of despatch of this Composite Document.
- (g) References to the Offers in this Composite Document and in the Forms of Acceptance shall include any extension and/or revision thereof.
- (h) Any Independent Shareholders and Bondholders accepting the Offers will be responsible for payment of any other transfer or cancellation or other taxes or duties payable by them in any relevant jurisdiction.
- (i) Save for the payment of stamp duty, settlement of the consideration to which any Independent Shareholder and Bondholder is entitled under the Offers will be implemented in full in accordance with the terms of the Offers without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Independent Shareholder and Bondholder.
- (j) Acceptance of the Offers by any nominee will be deemed to constitute a warranty by such nominee to the Offeror that the number of the Shares and the amount of CBs it has indicated in the Forms of Acceptance is the aggregate number of the Shares and the aggregate amount of CBs for which such nominee has received authorisations from the beneficial owners to accept the Offers on their behalf.
- (k) The English text of this Composite Document and the Forms of Acceptance shall prevail over the Chinese text for the purpose of interpretation.
- (l) In making their decision, the Independent Shareholders and the Bondholders must rely on their own examination of the Group and the terms of the Offers, including the merits and risks involved. The contents of this Composite Document, including any general advice or recommendation contained herein together with the Forms of Acceptance, shall not be construed as any legal or business advice on the part of the Offeror, the Company, Emperor Capital, BaoQiao, the Registrar or their respective professional advisers. The Independent Shareholders and the Bondholders should consult their own professional advisers for professional advice.
- (m) This Composite Document has been prepared for the purposes of compliance with the legislative and regulatory requirements applicable in respect of the Offers in Hong Kong and the operating rules of the Stock Exchange.

SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

The following is a summary of the financial results of the Group for each of the three years ended 31 December 2015 and for the six months ended 30 June 2016 as extracted from the annual and interim reports of the Company.

No qualified opinion was given by the auditor of the Company, Deloitte Touche Tohmatsu, in respect of the Group's audited consolidated financial statements for each of the three years ended 31 December 2015.

	For the six months ended	Year ended 31 December		
	30 June 2016 (Unaudited) <i>HK\$'000</i>	2015 (Audited) <i>HK\$'000</i>	2014 (Audited) <i>HK\$'000</i>	2013 (Audited) <i>HK\$'000</i>
Turnover	397,105	191,390	37,442	8,752
Profit/(loss) before taxation	63,075	49,519	(517,539)	(676,273)
Income tax	(31,203)	(36,978)	(1,873)	33
Profit (loss) for the year from discontinued operation	—	6,061	(43,843)	1,899
Profit (loss) after taxation	31,872	18,602	(563,255)	(674,341)
Attributable to:				
Equity shareholders of the Company	22,716	19,476	(560,689)	(675,376)
Non-controlling interests	9,156	(874)	(2,566)	1,035
Dividend	Nil	Nil	Nil	Nil
Basic earnings (loss) per Share (<i>HK cents</i>)				
— From continuing and discontinued operations	0.03	0.03	(1.00)	(1.99)
— From continuing operations	0.03	0.02	(0.95)	N/A
Dividend per Share (<i>HK cents</i>)	Nil	Nil	Nil	Nil

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following is the full text of the audited consolidated financial statements of the Group for the year ended 31 December 2015 extracted from the annual report of the Company for the year ended 31 December 2015:

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2015

	<i>Notes</i>	2015 <i>HK\$ '000</i>	2014 <i>HK\$ '000</i> (Restated)
Continuing operations			
Revenue	5	191,390	37,442
Cost of sales		<u>(61,395)</u>	<u>(80,883)</u>
Gross profit (loss)		129,995	(43,441)
Other income		57	8,683
Other expenses		(1,785)	(8,284)
Impairment loss recognised in respect of:			
— Intangible assets	14	(23,729)	(227,658)
— Available for sale investment		—	(15,954)
— Other receivable		(8,569)	(9,644)
— Amount due from an associate	18	—	(6,953)
— Goodwill	33	(2,943)	—
Allowance for inventories	15	(11,359)	(178,640)
Administrative expenses		(26,771)	(30,828)
Finance costs	6	<u>(5,377)</u>	<u>(4,820)</u>
Profit (loss) before taxation		49,519	(517,539)
Taxation	7	<u>(36,978)</u>	<u>(1,873)</u>
Profit (loss) for the year from continuing operations	8	<u>12,541</u>	<u>(519,412)</u>
Discontinued operations			
Profit (loss) for the year from discontinued operations	32	<u>6,061</u>	<u>(43,843)</u>
Profit (loss) for the year		<u><u>18,602</u></u>	<u><u>(563,255)</u></u>

Consolidated Statement of Profit or Loss and Other Comprehensive Income *(continued)*
For the year ended 31 December 2015

	<i>Notes</i>	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i> (Restated)
Other comprehensive income (expenses)			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation		187	(273)
Realisation of exchange differences upon disposal of subsidiaries		(1,003)	—
Total comprehensive income (expenses) for the year		<u>17,786</u>	<u>(563,528)</u>
Profit (loss) for the year attributable to owners of the Company			
— from continuing operations		12,766	(536,574)
— from discontinued operations		6,710	(24,115)
		<u>19,476</u>	<u>(560,689)</u>
(Loss) profit for the year attributable to non-controlling interests			
— from continuing operations		(225)	17,164
— from discontinued operations		(649)	(19,730)
		<u>(874)</u>	<u>(2,566)</u>
		<u>18,602</u>	<u>(563,255)</u>
Total comprehensive income (expenses) attributable to:			
— Owners of the Company		18,660	(560,962)
— Non-controlling		(874)	(2,566)
		<u>17,786</u>	<u>(563,528)</u>
Profit (loss) per share (HK\$)			
From continuing and discontinued operations			
— Basic	<i>12</i>	0.03	(1.00)
— Diluted		N/A	(1.00)
From continuing operations			
— Basic		0.02	(0.95)
— Diluted		N/A	(0.95)

Consolidated Statement of Financial Position*As at 31 December 2015*

	<i>Notes</i>	2015 <i>HK\$ '000</i>	2014 <i>HK\$ '000</i>
Non-current assets			
Property, plant and equipment	<i>13</i>	265	1,081
Intangible assets	<i>14</i>	114,633	155,763
		<u>114,898</u>	<u>156,844</u>
Current assets			
Inventories	<i>15</i>	252,238	273,706
Film rights investment	<i>16</i>	100,619	43,243
Trade and other receivables	<i>17</i>	238,741	70,321
Bank balances and cash	<i>19</i>	21,160	8,789
		<u>612,758</u>	<u>396,059</u>
Current liabilities			
Trade and other payables	<i>20</i>	90,646	113,702
Tax payable		93,222	58,186
Loan from a shareholder	<i>21</i>	50,000	50,000
Other loans	<i>22</i>	—	42,865
		<u>233,868</u>	<u>264,753</u>
Net current assets		<u>378,890</u>	<u>131,306</u>
		<u>493,788</u>	<u>288,150</u>
Capital and reserves			
Share capital	<i>24</i>	8,101	438,795
Share premium and reserves		491,769	(150,477)
Equity attributable to owners of the Company		499,870	288,318
Non-controlling interests		(6,082)	(168)
		<u>493,788</u>	<u>288,150</u>

Consolidated Statement of Changes in Equity*For the year ended 31 December 2015*

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i> <i>(Note a)</i>	Capital reserve <i>HK\$'000</i> <i>(Note b)</i>	Exchange reserve <i>HK\$'000</i>	Warrant reserve <i>HK\$'000</i> <i>(Note c)</i>	Accumulated losses <i>HK\$'000</i>	Sub-total <i>HK\$'000</i>	Non- controlling interests <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 January 2014	438,795	1,092,929	95	12,069	966	5,392	(700,966)	849,280	2,398	851,678
Loss for the year	—	—	—	—	—	—	(560,689)	(560,689)	(2,566)	(563,255)
Other comprehensive expense for the year	—	—	—	—	(273)	—	—	(273)	—	(273)
Total comprehensive expense for the year	—	—	—	—	(273)	—	(560,689)	(560,962)	(2,566)	(563,528)
Transfer upon cancellation of share options	—	—	—	(108)	—	—	108	—	—	—
As at 31 December 2014	438,795	1,092,929	95	11,961	693	5,392	(1,261,547)	288,318	(168)	288,150
Profit (loss) for the year	—	—	—	—	—	—	19,476	19,476	(874)	18,602
Other comprehensive expenses for the year	—	—	—	—	(816)	—	—	(816)	—	(816)
Total comprehensive (expenses) income for the year	—	—	—	—	(816)	—	19,476	18,660	(874)	17,786
Capital reorganisation <i>(note 24)</i>	(433,169)	(1,092,929)	—	—	—	—	1,526,098	—	—	—
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	(189)	(189)
Placement of shares <i>(note 24)</i>	2,475	195,075	—	—	—	—	—	197,550	—	197,550
Transaction cost attributable to placement of shares	—	(4,658)	—	—	—	—	—	(4,658)	—	(4,658)
Disposal of subsidiaries <i>(note 31)</i>	—	—	—	—	—	—	—	—	(4,851)	(4,851)
Transferred to warrant reserve	—	—	—	—	—	(5,392)	5,392	—	—	—
As at 31 December 2015	8,101	190,417	95	11,961	(123)	—	289,419	499,870	(6,082)	493,788

Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2015

Notes:

- (a) During 2008, the Company repurchased its owned ordinary shares on the Stock Exchange. The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by nominal value of these shares. An amount equivalent to the par value of the shares cancelled of HK\$95,000 was transferred from retained profits to capital redemption reserve.
- (b) Pursuant to a group reorganisation (the “Reorganisation”) which was completed on 17 November 2003 to rationalize the Group structure in the preparation for the listing of the Company’s shares on the Main Board of The Stock Exchange, the Company became the holding company of the Group. The excess of the nominal value of the shares issued by the Company over the aggregate of the nominal value of the share capital of the subsidiaries which the Company acquired under the Reorganisation was transferred to the capital reserve.

The capital reserve also comprises the fair value of the number of unexercised share options granted to directors of the Company and an employee of the Group.

- (c) The warrant reserve represents the excess of proceeds from the issue of the convertible notes over the amount initially recognised as the liability component of the convertible notes and the redemption call and put options. The Company created and granted to the warrant holder rights to subscribe in cash at any time and from time to time during the subscription period, which is from 8 July 2010 to 7 July 2015, for an aggregate of 11,380,942 fully paid ordinary shares of US\$0.01 each of the Company at a price per share equal to the subscription price of HK\$1.3278. No warrant has been exercised since the grant date. The warrant reserve amounting to HK\$5,392,000 was transferred to accumulated losses.

Consolidated Statement of Cash Flows*For the year ended 31 December 2015*

	<i>Notes</i>	2015 <i>HK\$ '000</i>	2014 <i>HK\$ '000</i>
OPERATING ACTIVITIES			
Profit (loss) before taxation		55,580	(567,569)
Adjustments for:			
Depreciation of property, plant and equipment		245	668
Amortisation of intangible assets		17,401	45,716
Interest income		(13)	(11)
Gain on disposal of subsidiaries	<i>31</i>	(7,504)	(8,404)
Finance costs		5,377	4,820
Allowance for inventories		11,359	178,640
Loss on disposal of property, plant and equipment		—	120
Gain on disposal of intangible assets		—	(145)
Impairment loss recognised in respect of:			
— goodwill		2,943	21,076
— intangible assets		23,729	252,071
— available-for-sale investment		—	15,954
— other receivables		8,569	11,114
— amount due from an associate		—	6,953
Operating cash flows before movements in working capital		117,686	(38,997)
Decrease in inventories		10,109	8,649
Increase in film rights investment		(57,376)	(43,243)
Increase in amount due from an associate		—	(1,708)
(Increase) decrease in trade and other receivables		(217,841)	64,089
Increase (decrease) in trade and other payables		7,644	(67,213)
Cash used in operating activities		(139,778)	(78,423)
Income tax paid		(195)	(156)
NET CASH USED IN OPERATING ACTIVITIES		(139,973)	(78,579)
INVESTING ACTIVITIES			
Proceeds from disposal of subsidiaries	<i>31</i>	8,513	34,722
Proceeds from disposal of intangible assets		—	1,719
Proceeds from disposal of property, plant and equipment		603	201
Proceeds for acquisition of subsidiaries	<i>33</i>	(513)	—
Interest received		13	11
Purchase of property, plant and equipment		(105)	(1,172)
NET CASH GENERATED FROM INVESTING ACTIVITIES		8,511	35,481

Consolidated Statement of Cash Flows *(continued)**For the year ended 31 December 2015*

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
FINANCING ACTIVITIES		
Increase in loan from a shareholder	—	50,000
New other loans raised	—	30,000
Repayment of other loans	(42,865)	(29,206)
Interest paid	(5,377)	(3,631)
Proceeds from share placing	197,550	—
Expenses on share placing	(4,658)	—
	<u>144,650</u>	<u>47,163</u>
NET CASH GENERATED FROM FINANCING ACTIVITIES		
	144,650	47,163
NET INCREASE IN CASH AND CASH EQUIVALENTS	13,188	4,065
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY	8,789	4,994
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(817)	(270)
	<u>21,160</u>	<u>8,789</u>
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER represented by bank balances and cash		
	<u><u>21,160</u></u>	<u><u>8,789</u></u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

1. GENERAL

SMI Culture Group Holdings Limited (the “Company”) is incorporated in Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited. For the year ended 31 December 2015, the Company changes the domicile to Bermuda. The address of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

The principal activities of the Group are the provision of cross-media services including investment in the production and distribution of films and television (“TV”) programmes and related services.

The consolidated financial statements are presented in Hong Kong Dollars, which is also the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time in the current year:

Amendments to HKAS 19	Defined benefit plans: Employee contributions
Amendments to HKFRSs	Annual improvements to HKFRSs 2010-2012 cycle
Amendments to HKFRSs	Annual improvements to HKFRSs 2011-2013 cycle

The application of the amendments to HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

HKFRS 9	Financial instruments ²
HKFRS 14	Regulatory deferral accounts ³
HKFRS 15	Revenue from contracts with customers ²
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations ¹
Amendments to HKAS 1	Disclosure initiative ¹
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation ¹
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants ¹
Amendments to HKAS 27	Equity method in separate financial statements ¹
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture ⁴
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception ¹
Amendments to HKFRSs	Annual improvements to HKFRSs 2012-2014 cycle ¹

¹ Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

² Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

³ Effective for first annual HKFRS financial statements beginning on or after 1 January 2016, with earlier application permitted.

⁴ Effective for annual periods beginning on or after a date to be determined.

Notes to the Consolidated Financial Statements *(continued)**For the year ended 31 December 2015***2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)** *(continued)***HKFRS 15 Revenue from contracts with customers**

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction contracts” and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group’s consolidated financial statements. However, it is not practical to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detail review.

The directors of the Company anticipate that the application of the other new and revised standards, amendments and interpretations will have no material impact on the consolidated financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include 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 (“CO”).

The disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the provisions of the new Hong Kong Companies Ordinance (Cap. 622) regarding preparation of accounts and directors’ reports and audits and to streamline with HKFRSs. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements.

Notes to the Consolidated Financial Statements *(continued)**For the year ended 31 December 2015***3. SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

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

Historical cost is generally based on the fair value of the consideration given in exchange for goods or services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial information of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Notes to the Consolidated Financial Statements *(continued)**For the year ended 31 December 2015***3. SIGNIFICANT ACCOUNTING POLICIES** *(continued)***Basis of consolidation** *(continued)*

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

Notes to the Consolidated Financial Statements *(continued)**For the year ended 31 December 2015***3. SIGNIFICANT ACCOUNTING POLICIES** *(continued)***Business combinations** *(continued)*

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 “Income taxes” and HKAS 19 “Employee benefits” respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 “Share-based payment” at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 “Non-current assets held for sale and discontinued operations” are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer’s previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity’s net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests’ proportionate share of the recognised amounts of the acquiree’s identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Group’s cash-generating unit (CGU) that is expected to benefit from the synergies of the combination.

A CGU to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Notes to the Consolidated Financial Statements *(continued)**For the year ended 31 December 2015***3. SIGNIFICANT ACCOUNTING POLICIES** *(continued)***Investments in associates**

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results, assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKAS 39. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

Notes to the Consolidated Financial Statements *(continued)**For the year ended 31 December 2015***3. SIGNIFICANT ACCOUNTING POLICIES** *(continued)***Investments in associates** *(continued)*

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sales of scripts, synopsis and editing/publishing rights

Revenue from the sale of these items is recognised when the items are delivered and the titles of those items have passed to the customers, as evidenced by the signing of the contract with the customers.

Television advertising income

Revenue from sales of television advertising ("TV advertising") air-times is recognised when the advertisements are broadcasted.

Film investment income

Film investment income represents the Group's share of box office sales from films exhibited in movie theatres, after the payment by the movie theatres of taxes and other governmental charges and deductions by movie theatres. The Group's share of profit is determined in accordance with the profit sharing ratio set out in the respective film investment agreements.

Revenue from film investment is recognised when (i) the films are exhibited in movie theatres, (ii) the amount of revenue can be measured reliably and (iii) the collectability of the entitled proceeds is reasonably assured.

Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Notes to the Consolidated Financial Statements (continued)*For the year ended 31 December 2015***3. SIGNIFICANT ACCOUNTING POLICIES (continued)****Intangible assets***Intangible assets acquired separately*

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. For license rights, in periods where revenue is generated from a license right, amortisation is recognised at rate calculated to write off the costs in proportion to the expected revenue from the licensing of the right. In the periods where no revenue is generated from the license right, amortisation is recognised on a straight-line basis over its estimated useful life. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment on tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives 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 the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) 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 had no impairment loss been recognised for the asset (or a CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Notes to the Consolidated Financial Statements *(continued)**For the year ended 31 December 2015***3. SIGNIFICANT ACCOUNTING POLICIES** *(continued)***Inventories**

Inventories are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Cost of inventories comprises the purchase cost of the different works from separate acquisitions.

The cost of inventories is recognised as an expense in cost of sales once the title of the inventories has been passed.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Film rights investment

Film rights investment represents films invested by the Group.

Film rights investment is stated at cost less any identified impairment loss. The costs of film rights are recognised as an expense based on the proportion of actual income earned from a film during the year to the total estimated income from the exhibition of the film attributable to the Group, according to the profit sharing ratio specified in the film investment agreements.

The Group reviews and revises estimates of total projected revenue and total production costs of film rights at the end of each reporting period. If estimates are revised, the Group adjusts the amount of total projected revenue (denominator) from the period when such changes in estimates take place and re-calculated the ratio for amortisation of film rights. The effect from changes in estimates is recognised on a prospective basis.

Notes to the Consolidated Financial Statements *(continued)**For the year ended 31 December 2015***3. SIGNIFICANT ACCOUNTING POLICIES** *(continued)***Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.
- On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.
- Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

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 added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

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

Notes to the Consolidated Financial Statements *(continued)**For the year ended 31 December 2015***3. SIGNIFICANT ACCOUNTING POLICIES** *(continued)***Retirement benefit costs**

Payments to the Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and the Labour Law in the People's Republic of China (the "PRC") municipal government retirement scheme, are recognised as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and 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

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of 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 associated with investments in subsidiaries, 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. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to 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.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets 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.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Notes to the Consolidated Financial Statements *(continued)**For the year ended 31 December 2015***3. SIGNIFICANT ACCOUNTING POLICIES** *(continued)***Property, plant and equipment**

Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset is recognised in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment losses (see accounting policy on impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Notes to the Consolidated Financial Statements *(continued)**For the year ended 31 December 2015***3. SIGNIFICANT ACCOUNTING POLICIES** *(continued)***Financial instruments** *(continued)***Financial assets** *(continued)**Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets are assessed for impairment on a collective basis even they were assessed not to be impaired individually are. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 to 180 days, observable changes in national or local economic conditions that correlate with default on receivables.

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

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Notes to the Consolidated Financial Statements *(continued)**For the year ended 31 December 2015***3. SIGNIFICANT ACCOUNTING POLICIES** *(continued)***Financial instruments** *(continued)***Financial liabilities and equity**

Debts and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Financial liabilities

Financial liabilities of the Group include loan from a shareholder, other loans and trade and other payables, which are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liability when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Notes to the Consolidated Financial Statements (continued)*For the year ended 31 December 2015***4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

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

Estimated useful lives of intangible assets

The directors of the Company estimate the useful lives of intangible assets in order to determine the amount of amortisation expenses to be recorded in accordance with the accounting policy set out in Note 3. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, as well as market obsolescence arising from changes in market demands. The directors of the Company also perform annual reviews on whether the assumptions made on useful lives continue to be valid. Such reviews take into account market changes, prospective utilisation, market popularity, and public acceptance of the assets concerned.

Impairment of trade receivables

When there is objective evidence of impairment loss, the directors of the Company take into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted using the original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2015, the carrying amount of trade receivables was approximately HK\$171,381,000 (2014: HK\$45,461,000). There was no impairment loss for both 2014 and 2015.

Impairment of inventories

The directors of the Company estimate the net realisable value of inventories based on estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale according to the accounting policy set out in note 3. In addition, the directors of the Company carry out a review on inventories at each date of the statement of financial position and provision is made when net realisable value of inventories is estimated to be less than their carrying amount. As at 31 December 2015, the carrying amount of inventories was HK\$252,238,000 net of provision of HK\$278,030,000 (2014: HK\$273,706,000 net of provision of HK\$266,671,000).

Notes to the Consolidated Financial Statements *(continued)**For the year ended 31 December 2015***4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY** *(continued)***Key sources of estimation uncertainty** *(continued)**Amortisation of film rights investment*

The Group is required to estimate the projected revenue of the film rights based on their economic lives in order to ascertain the amount of amortisation charges for each reporting period. The appropriateness of the amortisation estimate requires the use of judgment and assumptions with reference to the prevailing and future market conditions to estimate total projected revenue over their economic lives. Changes in these estimates and assumptions could have a material effect on the amortisation expenses. The carrying amount of the film rights investment as at 31 December 2015 was HK\$100,619,000 (2014: HK\$43,243,000). Details are set out in note 16.

Impairment of intangible assets

The directors of the Company estimate the recoverable amount of intangible assets based on the fair value less costs to sell. In addition, the Group carries out a review on intangible assets at each date of the statement of financial position and provision is made when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determination as to whether and how much an asset is impaired involves the directors of the Company's estimate of future cash flow generated by intangible assets, discount rate used in discounting the projected cash flow and customer profile. Whilst the impairment reviews and calculation are based on assumptions that are consistent with the business plan, projected future cash flow is affected by a wide range of factors which are beyond the control of the Group. As at 31 December 2015, the carrying value of intangible assets was HK\$114,633,000 net of the accumulated impairment losses of HK\$887,727,000 (2014: HK\$155,763,000 net of the accumulated impairment losses of HK\$863,998,000).

5. REVENUE AND SEGMENT INFORMATION

The Group's operating segments, determined based on the information reported to the chief operating decision maker ("CODM"), being the executive directors of the Company, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

Segment information reported externally was analysed on the basis of the following operating division, which are stated as follows:

- Television program related business
 - Sales of editing rights
- Film investment and distribution
 - Distribution of and investment in film rights

An operating segment regarding the television and other advertising was discontinued in the current year and details are set out in note 32. The segment information reported does not include any amounts for these discontinued operations.

Notes to the Consolidated Financial Statements (continued)*For the year ended 31 December 2015***5. REVENUE AND SEGMENT INFORMATION (continued)****(a) Segment revenue and results**

An analysis of the Group's revenue and results by operating and reportable segment is as follows:

For the year ended 31 December 2015

Continuing operations	Television programme related business HK\$ '000	Films investment and distribution HK\$ '000	Total HK\$ '000
Revenue	166,831	24,559	191,390
Segment profit	55,664	11,239	66,903
Finance costs			(5,377)
Unallocated expenses			(12,007)
Profit before taxation			<u>49,519</u>

For the year ended 31 December 2014 (restated)

Continuing operations	Television programme related business HK\$ '000	Films investment and distribution HK\$ '000	Total HK\$ '000
Revenue	9,935	27,507	37,442
Segment (loss) profit	(514,645)	4,940	(509,705)
Unallocated income			8,404
Finance costs			(4,820)
Unallocated expenses			(11,418)
Loss before taxation			<u>(517,539)</u>

All of the segment revenue reported above are from external customers.

Segment profit (loss) represents the profit (loss) incurred by each segment without allocation of unallocated income (which mainly represents gain on disposal of subsidiaries, unallocated expenses (which mainly include central administration costs, director's emoluments and loss on disposal of subsidiary) and finance costs). This is the measure reported to the CODM for the purpose of resource allocation and assessment of segment performance.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2015

5. REVENUE AND SEGMENT INFORMATION (continued)

(b) Segment assets and liabilities

An analysis of the Group's assets and liabilities by operating segment is as follows:

As at 31 December 2015

Continuing operations	Television programme related business HK\$ '000	Films investment and distribution HK\$ '000	Total HK\$ '000
Assets			
Segment assets	473,284	203,613	676,897
Other assets			50,759
Consolidated assets			<u>727,656</u>
Liabilities			
Segment liabilities	(152,163)	(9,633)	(161,796)
Other liabilities			(72,072)
Consolidated liabilities			<u>(233,868)</u>

As at 31 December 2014 (restated)

Continuing operations	Television programme related business HK\$ '000	Films investment and distribution HK\$ '000	Total HK\$ '000
Assets			
Segment assets	441,815	63,628	505,443
Other assets			16,561
Assets relating to discontinued operations			30,899
Consolidated assets			<u>552,903</u>
Liabilities			
Segment liabilities	(114,767)	(5,640)	(120,407)
Other liabilities			(99,137)
Liabilities related to discontinued operations			(45,209)
Consolidated liabilities			<u>(264,753)</u>

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating and reportable segments other than certain property, plant and equipment, certain deposits and prepayments, and certain bank balances and cash.
- all liabilities are allocated to operating and reportable segments other than loan from a shareholder, other loans, certain accruals, and other payables.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2015

5. REVENUE AND SEGMENT INFORMATION (continued)

(c) Other segment information

Amounts included in the measure of segment results and segment assets:

For the year ended 31 December 2015

Continuing operations	Television programme related business HK\$'000	Films investment and distribution HK\$'000	Unallocated HK\$'000	Total HK\$'000
Addition to property, plant and equipment	127	—	105	232
Depreciation for property, plant and equipment	36	—	209	245
Impairment loss recognised in respect of:				
— intangible assets	23,729	—	—	23,729
— goodwill	2,943	—	—	2,943
— other receivables	8,569	—	—	8,569
Amortisation of intangible assets	17,401	—	—	17,401
Allowance for inventories	11,359	—	—	11,359
	<u>11,359</u>	<u>—</u>	<u>105</u>	<u>245</u>

For the year ended 31 December 2014

Continuing operations	Television programme related business HK\$'000	Films investment and distribution HK\$'000	Unallocated HK\$'000	Total HK\$'000
Addition to property, plant and equipment	114	—	839	953
Depreciation for property, plant and equipment	114	—	111	225
Impairment loss recognised in respect of:				
— intangible assets	227,658	—	—	227,658
— available-for-sale investment	15,954	—	—	15,954
— other receivables	9,644	—	—	9,644
— amount due from an associate	6,953	—	—	6,953
Amortisation of intangible assets	44,258	—	—	44,258
Allowance for inventories	178,640	—	—	178,640
	<u>178,640</u>	<u>—</u>	<u>839</u>	<u>953</u>

Notes to the Consolidated Financial Statements (continued)*For the year ended 31 December 2015***5. REVENUE AND SEGMENT INFORMATION (continued)****(d) Geographical information**

The Group's current operations are mainly located in Hong Kong and the PRC. Information about the Group's revenue from external customers is presented based on the locations of the operation. Information about its non-current assets by geographical location of the assets is detailed below:

	Revenue from external customers		Non-current assets	
	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
Hong Kong	1,103	37,442	114,898	156,614
PRC	190,287	—	—	230
	<u>191,390</u>	<u>37,442</u>	<u>114,898</u>	<u>156,844</u>

(e) Revenue from major products and services

	2015 HK\$'000	2014 HK\$'000
Film investment income	24,559	27,507
Sales of editing rights	166,831	9,935
	<u>191,390</u>	<u>37,442</u>

(f) Information about major customers

The aggregate revenue attributed to the Group's five largest customers accounted for approximately 68% (2014: 54%) of the Group's total revenue and the largest customer accounted for approximately 18% (2014: 32%) of the Group's total revenue for the financial year ended 31 December 2015.

Revenue from customers of corresponding years contributing over 10% of total sales of the Group are as follows:

	2015 HK\$'000	2014 HK\$'000
Customer A — (Television programme related business)	35,047	N/A
Customer B — (Television programme related business)	28,656	N/A
Customer C — (Television programme related business)	29,850	N/A
Customer D — (Television programme related business)	19,923	N/A
	<u>191,390</u>	<u>37,442</u>

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2015

6. FINANCE COSTS

	2015 HK\$ '000	2014 HK\$ '000
Interest on:		
Bank loan and other borrowing	2,381	2,535
Loan from a shareholder	2,996	2,285
	<u>5,377</u>	<u>4,820</u>

7. TAXATION

	2015 HK\$ '000	2014 HK\$ '000
The tax charge comprises:		
Current tax:		
PRC Enterprise Income Tax (“EIT”)	36,978	1,788
Under provision in prior year		
PRC EIT	—	85
	<u>36,978</u>	<u>1,873</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the People’s Republic of China on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

Taxation for other subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

The tax charge for the year can be reconciled to the loss for the year per the consolidated statement of profit or loss and other comprehensive income as follows:

	2015 HK\$ '000	2014 HK\$ '000 (Restated)
Profit (loss) before tax from continuing operations	<u>49,519</u>	<u>(517,539)</u>
Tax at the average income tax rate of 25% (2014: 16.5%)	12,380	(85,394)
Tax effect of expenses not deductible for tax purpose	18,273	71,318
Tax effect of income not taxable for tax purpose	(6,690)	(6,317)
Under provision in respect of prior year	—	85
Tax effect of tax losses not recognised	4,272	7,219
Effect of different tax rates of subsidiaries operating in other jurisdictions	<u>8,743</u>	<u>14,962</u>
Tax charge (credit) for the year	<u>36,978</u>	<u>1,873</u>

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2015

8. PROFIT (LOSS) FOR THE YEAR

	2015 HK\$'000	2014 HK\$'000
Profit (loss) for the year from continuing operations has been arrived at after charging:		
Directors' emoluments	2,973	4,393
Other staff costs	3,066	8,321
Retirement benefits scheme contribution (excluding directors)	123	625
Auditors' remuneration	3,990	3,396
Depreciation for property, plant and equipment	215	225
Amortisation of intangible assets (included in cost of sales)	17,401	44,258
Cost of film rights expensed (included in cost of sales)	20,464	20,948
Cost of editing rights expensed (included in cost of sales)	10,109	8,649
Minimum lease payments	598	478
and after crediting (included in other income):		
Interest income	11	7
Gain on disposal of a subsidiary	—	8,404
Gain on disposal of intangible assets	—	145
	<u> </u>	<u> </u>

9. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

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

Details of emoluments paid or payable to the directors are set out as follows:

2015

Name of director	Date of appointment/resignation	Fees HK\$'000	Salary HK\$'000	Contribution	Total HK\$'000
				to retirement benefits scheme HK\$'000	
<i>Executive directors:</i>					
Chan Chi To, Antony		700	—	18	718
Hao Bin		240	720	—	960
Kong Dalu		240	—	—	240
Wang Hai Yun	Appointed on 6 August 2015	191	—	—	191
Yuan Xin	Resigned on 6 August 2015	—	—	—	—
<i>Independent non-executive directors:</i>					
Du Jiang		240	—	—	240
Liu Xianbo		240	—	—	240
Wu Chien-Chiang		240	—	—	240
Jiang Jinsheng	Resigned on 6 August 2015	144	—	—	144
		<u>2,235</u>	<u>720</u>	<u>18</u>	<u>2,973</u>

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2015

9. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (continued)

2014

Name of director	Date of appointment/resignation	Fees HK\$'000	Salary HK\$'000	Contribution to retirement benefits scheme HK\$'000	Total HK\$'000
<i>Executive directors:</i>					
Yuan Xin		—	826	—	826
Chan Chi To, Antony		—	1,200	17	1,217
Hao Bin	Appointed on 7 June 2014	—	800	—	800
Kong Dalu	Appointed on 7 June 2014	—	136	—	136
Chen Hai	Resigned on 16 May 2014	—	—	—	—
<i>Non-executive directors:</i>					
Liu Junbo	Retired on 6 June 2014	52	—	—	52
Chi Chenxi	Resigned on 31 October 2014	202	—	—	202
Hu Gin Ing	Resigned on 31 October 2014	200	—	—	200
Guo Hong	Resigned on 15 March 2014	—	—	—	—
<i>Independent non-executive directors:</i>					
Du Jiang		240	—	—	240
Liu Xianbo		240	—	—	240
Jiang Jinsheng		240	—	—	240
Wu Chien Chiang		240	—	—	240
		<u>1,414</u>	<u>2,962</u>	<u>17</u>	<u>4,393</u>

No directors waived any emoluments for the years ended 31 December 2014 and 2015.

The executive directors' emoluments for both 2014 and 2015 were mainly for their services in connection with the management of the affairs of the Company and the Group.

The non-executive directors' emoluments for both 2014 and 2015 were mainly for their services as directors of the Company or its subsidiaries.

The independent non-executive directors' emoluments for both 2014 and 2015 were mainly for their services as directors of the Company.

Notes to the Consolidated Financial Statements (continued)*For the year ended 31 December 2015***10. EMPLOYEES' EMOLUMENTS**

Of the five individuals with the highest emoluments in the Group, two (2014: two) were directors of the Company whose emolument is in note 9 above. The emoluments of the remaining three (2014: three) highest paid individuals were as follows:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Salaries and other benefits	1,656	3,257
Contribution to retirement benefits scheme	35	118
	<u>1,691</u>	<u>3,375</u>

The emoluments were within the following bands:

	Number of employees	
	2015	2014
Nil-HK\$1,000,000	3	—
HK\$1,000,001-HK\$1,500,000	—	3
	<u>3</u>	<u>3</u>

11. DIVIDENDS

No dividend was paid or proposed for the years ended 31 December 2015 and 2014, nor has any dividend been proposed since the end of the reporting periods.

Notes to the Consolidated Financial Statements (continued)*For the year ended 31 December 2015***12. EARNING (LOSS) PER SHARE**

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Earnings (loss) for the purposes of basic and diluted earnings (loss) per share	<u>19,476</u>	<u>(560,689)</u>
Weighted average number of ordinary shares for the purposes of basic and diluted earnings (loss) per share	<u>721,660,000</u>	<u>562,558,000</u>

For continuing operations

The calculation of the basic and diluted earnings (loss) per share from continuing operations attributable to the owners of the Company is based on the following data:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Profit (loss) for the year attributable to owners of the Company	19,476	(560,689)
Less: Profit (loss) for the year from discontinued operations	<u>6,710</u>	<u>(24,115)</u>
Earnings (loss) for the purposes of basic and diluted earnings (loss) from continuing operations	<u>12,766</u>	<u>(536,574)</u>

The denominators used are the same as those detailed above for both basic and diluted earnings (loss) per share.

For discontinued operations

Basic and diluted earnings (loss) per share from discontinued operations is HK 0.01 earning per share (2014: HK 0.04 loss per share), based on the profit (loss) for the year from the discontinued operations of HK\$6,710,000 (2014: loss of HK\$24,115,000) and the denominators detailed above for both basic and diluted earnings per share.

The computation of diluted earnings per share does not assume the exercise of the Company's options because the exercise price of those option was higher than the average market price for the 2014. All such exercisable share options have expired at the end of 2014, therefore no diluted earnings per share was applicable for the year ended 2015.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2015

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and other fixed assets <i>HK\$'000</i>	Props and costumes <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST				
As at 1 January 2014	592	2,923	7	3,522
Additions	46	1,126	—	1,172
Disposals	(181)	(805)	—	(986)
Exchange adjustment	(4)	(5)	—	(9)
As at 31 December 2014	453	3,239	7	3,699
Additions	33	72	—	105
Acquired on acquisition of subsidiaries	64	63	—	127
Disposals	(332)	(1,062)	—	(1,394)
Eliminated on disposal of subsidiaries	(75)	(623)	—	(698)
Exchange adjustment	—	3	—	3
As at 31 December 2015	143	1,692	7	1,842
DEPRECIATION				
As at 1 January 2014	328	2,285	7	2,620
Provided for the year	163	505	—	668
Eliminated on disposals	(61)	(604)	—	(665)
Exchange adjustment	(2)	(3)	—	(5)
As at 31 December 2014	428	2,183	7	2,618
Provided for the year	47	198	—	245
Eliminated on disposals	(332)	(459)	—	(791)
Eliminated on disposal of subsidiaries	(75)	(422)	—	(497)
Exchange adjustment	—	2	—	2
As at 31 December 2015	68	1,502	7	1,577
CARRYING VALUES				
As at 31 December 2015	75	190	—	265
As at 31 December 2014	25	1,056	—	1,081

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold improvements	6 years over the term of the lease, whichever is shorter
Motor vehicle	10%-20%
Furniture, fixtures and equipment	15%-33%

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2015

14. INTANGIBLE ASSETS

	Purchased licence rights HK\$'000	Television programmes in progress HK\$'000	Purchased advertising rights HK\$'000	Customer contract costs HK\$'000	Others HK\$'000	Total HK\$'000
COST						
As at 1 January 2014	1,247,559	112,142	38,283	54,654	6,182	1,458,820
Disposal	(17,432)	—	—	—	—	(17,432)
Written off	—	(112,142)	(38,283)	(54,654)	(6,182)	(211,261)
As at 31 December 2014 and 2015	1,230,127	—	—	—	—	1,230,127
AMORTISATION						
As at 1 January 2014	818,306	112,142	38,283	28,783	6,182	1,003,696
Provided for the year	44,258	—	—	1,458	—	45,716
Impairment loss	227,658	—	—	24,413	—	252,071
Elimination on disposal	(15,858)	—	—	—	—	(15,858)
Written off	—	(112,142)	(38,283)	(54,654)	(6,182)	(211,261)
As at 31 December 2014	1,074,364	—	—	—	—	1,074,364
Provided for the year	17,401	—	—	—	—	17,401
Impairment loss recognised in profit or loss	23,729	—	—	—	—	23,729
As at 31 December 2015	1,115,494	—	—	—	—	1,115,494
CARRYING VALUES						
As at 31 December 2015	114,633	—	—	—	—	114,633
As at 31 December 2014	155,763	—	—	—	—	155,763

Licence rights represent purchased broadcasting rights over films, TV series, documentaries, etc. These rights have finite useful lives and are expected to generate economic benefits in the long term through leasing out arrangements, whereby the Group would license out these broadcasting rights to TV stations and other broadcasting and media channels for broadcasting in particular location for a finite period.

Cost incurred to acquire contractual relationships in advertising business with customers is capitalized as customer contract cost, if it is probable that future economic benefit will flow from the customers to the Group and such costs can be measured reliably.

The remaining useful lives are used in the calculation of amortisation:

Purchased licence rights	9 years-15 years
Customer contract costs	5 years-10 years

The amortisation charge for the year is included in cost of sales in the consolidated statement of profit or loss and other comprehensive income.

Notes to the Consolidated Financial Statements *(continued)**For the year ended 31 December 2015***14. INTANGIBLE ASSETS** *(continued)*

Due to the continuously unsatisfactory results of the television programme licensing and advertising business, the Group fully impaired the customer contract costs on 31 December 2014.

The directors of the Company have also reviewed the recoverable amount of the purchased licence rights with reference to greater of their fair value less cost of disposal and value in use on 31 December 2015 and 2014. The recoverable amount have been arrived at with reference to the valuation carried out on 31 December 2015 and 2014 by Ascent Partners Valuation Service Limited, an independent qualified professional valuer not connected with the Group and also a member of Hong Kong Institute of Surveyors with appropriate qualifications and recent experiences in the valuation of similar assets.

As the fair value was not easy to be observable, the value in use is used to determine the recoverable amount. The value in use is estimated for each individual film or work based on the discounted cash flows analysis based on assumptions about future net cash flows from the assets over the next 10 years and at a discount rate of 20.04% (2014: 19.29%). Other assumptions for the future cash flow estimation, including forecast income and gross margin from the assets, are determined with reference to current assessment of the marketability of the assets as well as the general market condition for the media industry.

Having regard to the results of the valuation, an impairment loss of HK\$23,729,000 (2014: HK\$252,071,000) is recognized accordingly.

15. INVENTORIES

Inventories represent the cost of scripts, synopses, publication rights, publishing rights, and editing rights purchased by the Group, which are held by the Group for re-sale in the ordinary course of business.

The directors of the Company have reviewed the net realisable value of inventories with reference to a valuation carried out on 31 December 2015 and 2014 by an independent qualified professional valuer, Ascent Partners Valuation Service Limited. The valuation was performed on an individual basis for each script, synopsis and editing/publishing rights, taking into account market information on estimated selling prices adjusted for factors such as authorship, length of the works, historical trends on marketability of the work, etc.

An impairment loss of HK\$11,359,000 was recognised for the year ended 31 December 2015 (2014: HK\$178,640,000) due to the continuous unsatisfactory results from the sales of these works.

Notes to the Consolidated Financial Statements (continued)*For the year ended 31 December 2015***16. FILM RIGHTS INVESTMENT**

	<i>HK\$ '000</i>
As at 1 January 2014	—
Additions	64,191
Recognised as an expense included in cost of sales	<u>(20,948)</u>
As at 31 December 2014	43,243
Additions	77,840
Recognised as an expense included in cost of sales	<u>(20,464)</u>
As at 31 December 2015	<u><u>100,619</u></u>

The costs of film rights are recognised as an expense in cost of sales based on the proportion of actual income earned from a film during the year to the total estimated income from exhibition of the film attributable to the Group, according to the profit sharing ratio specified in the film investment agreements.

17. TRADE AND OTHER RECEIVABLES

	2015	2014
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Trade receivables	171,381	45,461
Deferred sale proceeds on disposal of subsidiaries	—	8,569
Deposits, prepayments and other receivables	<u>67,360</u>	<u>16,291</u>
	<u><u>238,741</u></u>	<u><u>70,321</u></u>

The Group allows an average credit period of 90-180 days to its trade customers for TV advertising and contract sales of editing rights.

Trade receivables from the licensing income are usually received within 180 days from the date of signing of the contracts.

Trade receivables from film investment income are usually received within 180 days after the related films have been withdrawn from circuit.

Notes to the Consolidated Financial Statements (continued)*For the year ended 31 December 2015***17. TRADE AND OTHER RECEIVABLES (continued)**

The following is an aged analysis of trade receivables presented based on the invoice date or contract date, as appropriate, at the end of the reporting period.

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
0-30 days	115,757	23,729
31-60 days	20,935	18,412
91-180 days	796	3,320
181-365 days	17,282	—
Over 1 year	16,611	—
	<u>171,381</u>	<u>45,461</u>

As at 31 December 2015, trade receivables of HK\$53,894,000 (2014: nil) were past due but not impaired. The aging analysis of these trade receivables is as follows:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
0-30 days	29,369	—
91-180 days	24,525	—
	<u>53,894</u>	<u>—</u>

The Group has not recognised any impairment loss for the above overdue debts as the Group considers that the default risk is low after considering the creditworthiness and repayment history of the debtors and settlement after the end of each reporting period. No collateral is held over these receivables. Trade receivables which are neither overdue nor impaired are of good quality was fully settled subsequent to the end of the reporting period.

As at 31 December 2015, an amount of HK\$47,516,000 (2014: nil net of the impairment loss of HK\$9,644,000) paid for the acquisition of film investments right was included in other receivable. The amount will be transferred to the film rights investment once the investment agreement is finalised. The directors of the Company carried out an impairment assessment on the recoverability of other receivables and recognised an impairment loss on the deposits made for investment which the Group no longer intended to pursue.

During the year, the directors of the Company conducted an impairment assessment on the deferred sales proceeds in relation to the disposal of subsidiaries in 2014 (Note 31) and determined an impairment loss of HK\$8,569,000 was recognised.

Notes to the Consolidated Financial Statements (continued)*For the year ended 31 December 2015***18. INTEREST IN AN ASSOCIATE**

Details of the Group's interests in an associate are as follows:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Cost of investments in an associate — unlisted	4,909	4,909
Share of post-acquisition loss and other comprehensive expenses, net of dividends received	(4,909)	(4,909)
	<u>—</u>	<u>—</u>

Details of the Group's associate at the end of the reporting period are as follow:

Name of entity	Form of entity	Place of incorporation	Principal place of operation	Class of shares held	Proportion of ownership interest held by the Group	Proportion of voting rights held by the Group	Principal activities
Beijing Guoguang Huaxia Media Broadcasting Company Limited	Incorporated	PRC	PRC	Ordinary	45%	45%	Purchase and holding of distribution rights

During the year ended 31 December 2014, the directors of the Company carried out an impairment assessment on the amount due from an associate due to the continuous losses incurred by the associate and its net liabilities position and recognised an impairment loss of HK\$6,953,000.

Summarised financial information of the Group's associate

Summarised financial information in respect of each of the Group's associate is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs.

The associate is accounted for using the equity method in these consolidated financial statements.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2015

18. INTEREST IN AN ASSOCIATE (continued)**Summarised financial information of the Group's associate** (continued)*Beijing Guoguang Huaxia Media Broadcasting Company Limited ("Beijing Guoguang Huaxia")*

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Current assets	<u>3,093</u>	<u>3,565</u>
Non-current assets	<u>86</u>	<u>11</u>
Current liabilities	<u>(6,315)</u>	<u>(5,524)</u>
	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Revenue	<u>—</u>	<u>—</u>
Loss and total comprehensive expenses for the year	<u>(1,188)</u>	<u>(1,892)</u>

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Net liabilities of Beijing Guoguang Huaxia	(3,136)	(1,948)
Proportion of the Group's ownership interest in Beijing Guoguang Huaxia	45%	45%
Unrecognised share of loss	<u>1,411</u>	<u>877</u>
	<u>—</u>	<u>—</u>
	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Unrecognised share of loss of an associate	524	851
Cumulative share of loss of an associate	<u>4,909</u>	<u>4,909</u>

Notes to the Consolidated Financial Statements (continued)*For the year ended 31 December 2015***19. BANK BALANCES AND CASH**

Bank balances carry interest at market rates which range from 0.01 % to 3.27% (2014: 0.35% to 4.88%) per annum.

20. TRADE AND OTHER PAYABLES

	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	4,322	7,353
Accruals	47,076	59,742
Other payables	39,248	46,607
	<u>90,646</u>	<u>113,702</u>

The average credit period on purchase of film rights investment is 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

Included in other payables as at the year ended 31 December 2015 is an amount of HK\$28,413,000 (2014: HK\$17,478,000) relating to other tax payables arising from the PRC operation.

As at 31 December 2015, an amount of HK\$38,186,000 (2014: HK\$37,018,000) in respect of sums of accruals of potential settlement arising from a pending litigation with a business partner. Details of the pending litigation are disclosed in note 34.

21. LOAN FROM A SHAREHOLDER

As at 31 December 2014 and 2015, the loan from a shareholder with significant influence over the Company amounting to HK\$50,000,000 is unsecured, interest-bearing at 10% per annum and repayable on demand.

22. OTHER LOANS

As at 31 December 2014, other loan borrowed by the Group amounted to HK\$12,865,000 was repayable on demand, unsecured and borne interest at Hong Kong prime rate per annum. Such loan was fully repaid during the year ended 31 December 2015.

As at 31 December 2014, other loan borrowed by the Group also includes a loan amounting to HK\$30,000,000, which was unsecured and borne interest at fixed rate of 24% per annum. Such loan was repaid during the year ended 31 December 2015.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2015

23. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities recognised and movements thereon during the current and prior year.

	Fair value adjustments of customer contract cost (Note 14) HK\$ '000
At 1 January 2014	6,468
Credit to profit or loss	(6,468)
At 31 December 2014	—
Credit to profit or loss	—
At 31 December 2015	—

At the end of the reporting period, the Group has unutilised tax losses of approximately HK\$236,248,000 (2014: HK\$273,752,000) available to offset against future profits. No deferred tax asset has been recognised in respect of the unutilised tax losses due to the unpredictability of future profits stream. Such tax losses can be carried forward indefinitely.

24. SHARE CAPITAL

	Par value	Number of shares '000	Share capital HK\$ '000
Authorised:			
As at 1 January 2014 and 2015			
— Ordinary shares of US\$0.1 (equivalent to HK\$0.78) each (note (i)(a))	HK\$0.78	1,000,000	780,000
Capital reduction (note (i)(b))		—	(770,000)
		1,000,000	10,000
Increase of authorised share capital (note (i)(c))	HK\$0.01	99,000,000	990,000
As at 31 December 2015	HK\$0.01	100,000,000	1,000,000
Issued and fully paid:			
As at 1 January 2014 and 2015		562,558	438,795
Cancellation of share premium account and capital reorganisation (note (i)(a))		—	(433,169)
Issue of new shares upon placement of shares (note (ii))		247,500	2,475
As at 31 December 2015		810,058	8,101

Notes to the Consolidated Financial Statements (continued)*For the year ended 31 December 2015***24. SHARE CAPITAL (continued)***Notes:***(i) Capital reorganisation**

On 13 February 2015, the Company implemented the capital reorganisation which involves the following:

- (a) the authorised and issued existing shares be re-denominated (at the exchange rate of US\$1.0 to HK\$7.8) to HK\$780,000,000 and HK\$438,794,993.52, respectively, such that the par value of each existing share will be changed from US\$0.10 to HK\$0.78 (“adjusted shares”).

The Company cancelled an amount of HK\$1,092,929,000 standing to the credit of the share premium account of the Company and transferred the credits arising from such cancellation to an account designated as the contributed surplus account of the Company.

- (b) the capital reduction whereby the par value of each issued adjusted share be reduced from HK\$0.78 to HK\$0.01 by cancelling the capital paid-up thereon to the extent of HK\$0.77 on each of the issued adjusted shares;
- (c) the Company increased the authorised share capital to HK\$1,000,000,000 divided into 100,000,000,000 adjusted shares;
- (d) the credits arising from the capital reduction, with amounted to approximately HK\$433,169,417 based on the number of the existing shares in issue on 26 January 2015, be transferred to the contributed surplus account; and
- (e) the amount standing to the credit of the contributed surplus account be applied to set off the accumulated losses of the Company by the amount of such credit or be applied in any other manner as may be permitted under the bye-laws of the Company.

(ii) Placement of shares

A placement of 112,500,000 shares, with par value of HK\$0.01, of the Company at a price of HK\$0.64 per share was made with independent investors on 24 March 2015. The net proceeds was used for the repayment of liabilities and general working capital of the Company.

A placement of 135,000,000 shares, with par value of HK\$0.01, of the Company at a price of HK\$0.93 per share was made with independent investors on 23 June 2015. The net proceeds was used for general working capital of the Company or to finance any future opportunities to be identified by the Company.

Notes to the Consolidated Financial Statements (continued)*For the year ended 31 December 2015***25. OPERATING LEASES****The Group as lessee**

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Minimum lease payments recognised under operating leases for premises during the year	<u>598</u>	<u>1,450</u>

At the end of reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Within one year	541	634
In the second to fifth years inclusive	<u>—</u>	<u>561</u>
	<u>541</u>	<u>1,195</u>

Operating lease payments represent rentals paid or payable by the Group for certain of its office premises and office equipment. Leases are negotiated for lease term of one year (2014: two years).

26. RETIREMENT BENEFITS PLANS

The Group operates a Mandatory Provident Fund Scheme (“the HK MPF scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The HK MPF scheme are defined contribution retirement scheme administered by independent trustees. Under the HK MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees’ relevant income, subject to a cap of monthly relevant income of HK\$25,000, effective on 1 June 2014 (previously is HK\$20,000) for the HK MPF Scheme. Contributions to the scheme vest immediately.

The employees of the Group’s subsidiaries in the PRC are members of a state-managed retirement benefit plan operated by the government of the PRC. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

The total cost charged to consolidated statement of profit or loss and other comprehensive income approximately of HK\$141,000 (2014: HK\$642,000) represents contributions payable to the MPF Scheme and the state-managed retirement benefit plan in PRC by the Group in respect of the year ended 31 December 2015.

Notes to the Consolidated Financial Statements (continued)*For the year ended 31 December 2015***27. FINANCIAL INFORMATION OF THE COMPANY**

The information about the statement of financial position of the Company at the end of reporting period is as follows:

	<i>Notes</i>	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Non-current assets			
Investment in subsidiaries	<i>(a)</i>	390	390
Amount due from subsidiaries		<u>206,977</u>	<u>83,474</u>
		<u>207,367</u>	<u>83,864</u>
Current assets			
Prepayments, deposits and other receivables		35,110	12,031
Bank balances and cash		<u>15,649</u>	<u>4,530</u>
		<u>50,759</u>	<u>16,561</u>
Total liability			
Loan from a shareholder		(50,000)	(50,000)
Other loans		—	(30,000)
Accrual and other payables		<u>(22,072)</u>	<u>(19,137)</u>
		<u>(72,072)</u>	<u>(99,137)</u>
Net assets		<u><u>186,054</u></u>	<u><u>1,288</u></u>
Capital and reserves			
Share capital	<i>24</i>	8,101	438,795
Reserves	<i>(b)</i>	<u>177,953</u>	<u>(437,507)</u>
		<u><u>186,054</u></u>	<u><u>1,288</u></u>

Notes:

- (a) The interest in a subsidiary represents the unlisted share measured at cost less impairment loss recognised.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2015

27. FINANCIAL INFORMATION OF THE COMPANY (continued)

Notes: (continued)

(b) Reserves

	Share premium HK\$ '000	Capital redemption reserve HK\$ '000	Capital reserve HK\$ '000	Contributed surplus HK\$ '000 (Note)	Warrant reserve HK\$ '000	Accumulated losses HK\$ '000	Total HK\$ '000
As at 1 January 2014	1,092,929	95	14,759	59,382	5,392	(1,596,232)	(423,675)
loss for the year	—	—	—	—	—	(13,832)	(13,832)
As at 31 December 2014	1,092,929	95	14,759	59,382	5,392	(1,610,064)	(437,507)
loss for the year	—	—	—	—	—	(8,126)	(8,126)
Capital reorganisation (Note 24 (ii)(d))	(1,092,929)	—	—	1,526,098	—	—	433,169
Capital reorganisation (Note 24 (ii)(e))	—	—	—	(1,585,480)	—	1,585,480	—
Placement of shares	190,417	—	—	—	—	—	190,417
Expiration of convertible bond	—	—	—	—	(5,392)	5,392	—
As at 31 December 2015	<u>190,417</u>	<u>95</u>	<u>14,759</u>	<u>—</u>	<u>—</u>	<u>(27,318)</u>	<u>177,953</u>

Note: Contributed surplus represents the excess of aggregate of the net asset value of subsidiaries acquired by the Company over the nominal value of the shares issued by the Company pursuant to the reorganisation on 30 September 2004.

28. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and various reserves.

29. FINANCIAL INSTRUMENTS

29a. Categories of financial instruments

	2015 HK\$ '000	2014 HK\$ '000
Financial assets		
Loans and receivables (including cash and cash equivalents)	<u>202,541</u>	<u>73,000</u>
Financial liabilities		
Amortised cost	<u>133,541</u>	<u>184,843</u>

Notes to the Consolidated Financial Statements *(continued)**For the year ended 31 December 2015***29. FINANCIAL INSTRUMENTS** *(continued)***29b. Financial risk management objectives and policies**

The Group's major financial instruments include available-for-sale investment, trade and other receivables, bank balances and cash and trade and other payables. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk*(i) Interest rate risk*

The Group's fair value interest rate risk relates primarily to fixed rate borrowings from a shareholder and external lender (see note 21 and 22 for details of these borrowings).

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances and other loans (note 19 and 22). The Group's cash flow interest rate is mainly resulted from the fluctuation of market interest rate.

The Group's fair value interest rate risk relates primarily to the loan from a shareholder and other loans. The Group currently does not have any interest rate hedging policy. The Group monitors the interest rate risk exposure closely and may consider to enter any hedging activities if the need arises.

The sensitivity analysis below has been determined based on the exposure to interest rates on bank balances and other loans. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year.

A 50 basis point increase is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 50 basis points higher and all other variables were held constant, the Group's gain for the year ended 31 December 2015 would increase by approximately HK\$106,000 (2014: decrease by HK\$20,000). Management does not expect a significant decrease of interest rate.

In management's opinion, the sensitivity analysis is unrepresentative of inherent interest rate risk as the year end exposure does not reflect the exposure during the year.

Notes to the Consolidated Financial Statements *(continued)**For the year ended 31 December 2015***29. FINANCIAL INSTRUMENTS** *(continued)***29b. Financial risk management objectives and policies** *(continued)****Credit risk***

As at 31 December 2015, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group credit risk is primarily attributable to its trade receivables. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt 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 credit risk on liquid funds is limited because the counterparties are banks with good reputation.

Other than concentration of credit risk on liquid funds which are deposited with several banks with good reputation, the Group does not have any other significant concentration of credit risk.

The Group is exposed to concentration of credit risk as at 31 December 2015 on trade receivable from the Group's 5 major customers amounting to HK\$131,350,000 (2014: 27,049,000) and accounted for 76% (2014: 59%) of the Group total trade receivable. The major customers of the Group are certain reputable organisations. The directors of the Company consider that the credit risk is limited in this regard.

Notes to the Consolidated Financial Statements (continued)*For the year ended 31 December 2015***29. FINANCIAL INSTRUMENTS (continued)****29b. Financial risk management objectives and policies (continued)****Liquidity risk**

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. As at 31 December 2015 and 2014, the Group had no external borrowings.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

	Weighted average interest rate %	Within 1 year or on demand HK\$'000	Total contractual undiscounted cash flow HK\$'000	Carrying amount HK\$'000
2015				
Trade and other payables	—	83,541	83,541	83,541
Loan from a shareholder	10	55,000	55,000	50,000
		<u>138,541</u>	<u>138,541</u>	<u>133,541</u>
2014				
Trade and other payables	—	91,978	91,978	91,978
Other loan with fixed rate	24	37,200	37,200	30,000
Other loan with variable rate	8	13,894	13,894	12,865
Loan from a shareholder	10	55,000	55,000	50,000
		<u>198,072</u>	<u>198,072</u>	<u>184,843</u>

29c. Fair values

The directors consider that the carrying amounts of other financial assets and financial liabilities at amortised cost in the consolidated financial statements approximate their fair values due to short maturity.

Notes to the Consolidated Financial Statements *(continued)**For the year ended 31 December 2015***30. RELATED PARTY TRANSACTIONS**

Apart from the amount due from an associate and loan from a shareholder disclosed in note 18 and 21 in the consolidated statement of financial position, the Group has entered into the following related parties transactions:

(A) Compensation of key management personnel

The remuneration of directors and other members of key management compensation during the year was as follows:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Short-term employee benefits <i>(Note 9)</i>	2,955	4,506
Post-employment benefits	18	130
	<u>2,973</u>	<u>4,636</u>

The remuneration of directors and other members of key management is determined by the remuneration committee having regards to the performance of individuals and market trends.

(B) Transactions*Connected parties*

Name of company	Nature of transactions	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
SMI Holdings Group Limited <i>(Note)</i> ("SMI Holdings")	Purchase of films	—	40,876
— a shareholder with significant influence over the Company	Loan interest	2,996	2,285
		<u>2,996</u>	<u>43,161</u>

Note: Such transactions constituted a connected transaction under the Listing Rule.

Notes to the Consolidated Financial Statements (continued)*For the year ended 31 December 2015***31. DISPOSAL OF SUBSIDIARIES**

On 31 December 2013, the Group entered into an agreement to dispose of two wholly owned subsidiaries (“Flash Fountain Group”) to an independent third party for an aggregate consideration of HK\$40,170,000. The subsidiaries were principally engaged in properties holding. The disposal was completed during the year ended 31 December 2014, a net gain on disposal of these subsidiaries of HK\$8,404,000 was recognised.

On 20 March 2015, the Group entered into an agreement to dispose of two other non-wholly owned subsidiaries (“Guangzhou Qin Chuang Group”) to an independent third party through winding up a wholly foreign owned enterprise. The subsidiaries were principally engaged in the television advertising agency business in the PRC. Following the completion of such disposal, the television and other advertising business was discontinued. The discontinued operations were disclosed in note 32. The disposal of subsidiaries was completed during the year ended 31 December 2015, a net gain on the disposal of such subsidiaries of HK\$7,504,000 were recognised.

The aggregate net assets of the above subsidiaries at their respective dates of disposal were as follows:

Disposal of Flash Fountain Group in 2014

	<i>HK\$ '000</i>
Consideration	
Consideration received	31,601
Deferred sales proceeds (<i>note 17</i>)	8,569
	<u>40,170</u>
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	31,748
Accounts and other receivables	18
	<u>31,766</u>
Net assets disposed	<u>31,766</u>
Gain (loss) on disposal of subsidiaries	
Consideration received or receivable	40,170
Net assets disposed of	<u>(31,766)</u>
Gain on disposal of subsidiaries	<u>8,404</u>
Net cash inflow on disposal of subsidiaries	
Consideration received	<u>31,601</u>

Notes to the Consolidated Financial Statements (continued)*For the year ended 31 December 2015***31. DISPOSAL OF SUBSIDIARIES (continued)****Disposal of Guangzhou Qin Chuang Group in 2015**

	<i>HK\$ '000</i>
Consideration	
Consideration	13,500
	<u>13,500</u>
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	201
Accounts and other receivables	40,852
Bank balances and cash	4,136
Bank overdraft	(12,649)
Accruals and other payables	(19,940)
Tax payable	(1,753)
	<u>(10,847)</u>
Net assets disposed	10,847
	<u>10,847</u>
Gain (loss) on disposal of subsidiaries	
Consideration received	13,500
Net assets disposed of	(10,847)
Non-controlling interests	4,851
	<u>7,504</u>
Gain on disposal of subsidiaries	7,504
	<u>7,504</u>
Net cash inflow on disposal of subsidiaries	
Consideration used to set off the other payable (<i>Note 35</i>)	—
Bank overdraft disposed	12,649
Cash and cash equivalents disposed	(4,136)
	<u>8,513</u>
	<u>8,513</u>

Notes to the Consolidated Financial Statements (continued)*For the year ended 31 December 2015***32. DISCONTINUED OPERATIONS**

The business segment of television and other advertising business was classified as discontinued operation in respect of both years. The loss for the year from the discontinued operation is analysed as follows:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Loss of discontinued operations for the years	(1,443)	(43,843)
Gain on disposal of subsidiaries (<i>note 31</i>)	7,504	—
	<u>6,061</u>	<u>(43,843)</u>

The results of the television and other advertising business for the period from 1 January 2014 to the date of cease of operation, which have been included in the consolidated income statement, were as follows:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Revenue	22,618	87,320
Cost of sales	<u>(22,950)</u>	<u>(82,955)</u>
Gross (loss) profit	(332)	4,365
Other income	2	16
Other expenses	(21)	(23)
Impairment loss recognised in respect of:		
— Goodwill	—	(21,076)
— Intangible assets	—	(24,413)
— Other receivables	—	(1,470)
Administrative expenses	(1,092)	(7,429)
Taxation	<u>—</u>	<u>6,187</u>
Loss for the year	<u>(1,443)</u>	<u>(43,843)</u>

The comparative figures in the consolidated income statement for the year ended 31 December 2014 have been restated to present the loss for the year then ended from TV and other advertisement business as discontinued operation.

During the year, the contribution of the discontinued operation to the Group's net cash flows from operating activities and investing activities were analysed as follows:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Net cash from operating activities	1,770	1,008
Net cash from investing activities	<u>2</u>	<u>72</u>
Net cash inflow	<u>1,772</u>	<u>1,080</u>

Notes to the Consolidated Financial Statements (continued)*For the year ended 31 December 2015***33. ACQUISITION OF SUBSIDIARIES**

In December 2015, the Group acquired 70% of the issued share capital of two subsidiaries for consideration of HK\$2,500,000. This acquisition has been accounted for using the purchase method. Those two subsidiaries are engaged in the operation of models agency business. Those subsidiaries were acquired so as to continue the expansion of movie distribution business.

Consideration transferred

	<i>HK\$'000</i>
Cash	2,500

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	<i>HK\$'000</i>
Property, plant and equipment	127
Bank balances and cash	1,987
Trade and other payables	(2,740)
Tax payable	(6)
	<u>(632)</u>
Goodwill arising from acquisition:	
Consideration transferred	2,500
Non-controlling interest	(189)
Net liabilities acquired	632
	<u>2,943</u>

Net cash outflow on acquisition of subsidiaries

	<i>HK\$'000</i>
Cash consideration paid	(2,500)
Less: Cash and cash equivalents balances acquired	1,987
	<u>(513)</u>

For the impairment testing on the goodwill, the entire carrying amount of goodwill has been allocated to the CGU which constitutes the models agency business. As this business is loss making and the directors of the Company do not expect a future positive cash flow from this CGU, a full impairment loss of HK\$2,943,000 was recognised in the profit or loss during the year.

Notes to the Consolidated Financial Statements *(continued)**For the year ended 31 December 2015***34. PENDING LITIGATION**

An action was commenced by a business partner against a subsidiary of the Group in December 2013 in Beijing People's Court in respect of the accruals of potential settlement to this business partner of approximately RMB30,930,000 (equivalent to approximately HK\$38,186,000), plus interest thereon.

The directors have confirmed that no settlement had been reached by the parties involved. The Group has sought legal advice from its legal counsel on the merits of the claim.

The directors are of the view that the quantum of the ultimate cost and damages (if any) to be incurred by the Group will not have a material adverse impact on the Group's consolidated financial position as an accrual for the potential settlement of HK\$38,186,000 (2014: HK\$37,018,000) had been made.

35. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2015, the Group disposed its television advertising agency business in the PRC to an independent third party. The consideration of such disposal amounting to HK\$13,500,000 was used to set off the other payable to this third party. The disposal of subsidiaries detail is disclosed in note 31.

36. EVENTS AFTER THE REPORTING PERIOD

On 29 January 2016, the Board of the Company passed resolutions authorising the Company's execution of a note subscription agreement regarding the issue of guaranteed 9% notes due 29 July 2016 (the "Notes") with an aggregate principal amount of HK\$250,000,000 to Amazing Union Limited (a wholly owned subsidiary of a listed company in Hong Kong). The repayment of the notes was guaranteed by SMI Holdings Group Limited.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2015

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries at 31 December 2015 and 31 December 2014 are as follows:

Name of subsidiary	Place of incorporation	Issued and paid up capital	Proportion ownership interest held by the Company				Proportion of voting power held by the Company				Principal activities
			Direct		Indirect		Direct		Indirect		
			2015 %	2014 %	2015 %	2014 %	2015 %	2014 %	2015 %	2014 %	
Quick Gain Enterprises Limited	British Virgin Islands	Ordinary USD1	100	100	—	—	100	100	—	—	Holding company
Qin Jia Yuan Media Creation Limited	British Virgin Islands	Ordinary USD1	—	—	100	100	—	—	100	100	Holding of adaptation rights
Qin Jia Yuan Creation Company Limited	British Virgin Islands	Ordinary USD10	—	—	100	100	—	—	100	100	Holding of scripts and Synopses
Hangwai Enterprises Limited	British Virgin Islands	Ordinary USD1	—	—	100	100	—	—	100	100	Holding of distribution rights
Hang Hung Yip Investment Limited	British Virgin Islands	Ordinary USD1	—	—	100	100	—	—	100	100	Holding of distribution rights
Vast Top Investments Limited	British Virgin Islands	Ordinary USD1	—	—	100	100	—	—	100	100	Holding of adaptation rights
Great Mean Enterprises Limited	British Virgin Islands	Ordinary USD1	—	—	100	100	—	—	100	100	Holding of adaptation rights
SMI Culture Workshop Company Limited	Hong Kong	Ordinary HK\$1	—	—	100	100	—	—	100	100	Movie investment
Sharp Cheer Enterprises Limited	British Virgin Islands	Ordinary USD1	—	—	100	100	—	—	100	100	Holding of distribution rights
Green Team Culture Asset Limited	British Virgin Islands	Ordinary USD10,000	—	—	100	100	—	—	100	100	Holding of publication and adaption rights
SMI Movie Company Limited	Hong Kong	Ordinary HK\$1	—	—	100	100	—	—	100	100	Movie and TV program investment
必可視(北京)國際廣告傳媒有限公司	PRC	Ordinary HK\$12,000,000	—	—	100	100	—	—	100	100	Provision of TV program and production related service
廣州勤創企業管理有限公司	PRC	Ordinary RMB100,000	—	—	—	55	—	—	55	55	Provision of consultancy services on TV advertising
北京華夏勤加緣文化傳播有限公司	PRC	Ordinary RMB10,000,000	—	—	100	100	—	—	100	100	Provision of TV program and production related service
廣州創領傳媒廣告有限公司	PRC	Ordinary RMB1,000,000	—	—	—	55	—	—	55	55	Provision of TV advertising services

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

None of the subsidiaries had issued any debt securities at the end of the year.

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following is the full text of the unaudited interim financial statements of the Group for the six months ended 30 June 2016 extracted from the interim result announcement of the Company dated 29 August 2016 for the six months ended 30 June 2016:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2016 — unaudited
(Expressed in Hong Kong dollars)

	<i>Note</i>	Six months ended 30 June 2016 <i>HK\$'000</i>	Six months ended 30 June 2015 <i>HK\$'000</i>
Continuing operations			
Revenue	3	397,105	48,716
Cost of sales		<u>(271,460)</u>	<u>(36,012)</u>
Gross profit		125,645	12,704
Other income	4(a)	166	9
Other expenses	4(b)	(10,109)	(688)
Impairment loss recognised in respect of:			
— Intangible assets		(5,574)	(8,078)
Allowance for inventories		(15,524)	(13,532)
Administrative and other operating expenses		(21,110)	(10,081)
Finance costs	5(a)	<u>(10,419)</u>	<u>(4,991)</u>
Profit/(loss) before taxation	5	63,075	(24,657)
Taxation	6	<u>(31,203)</u>	<u>(5,429)</u>
Profit/(loss) for the period from continuing operations		31,872	(30,086)
Discontinued operation			
Profit for the period from discontinued operation	7	<u>—</u>	<u>6,061</u>
Profit/(loss) for the period		<u>31,872</u>	<u>(24,025)</u>
Other comprehensive income/(expenses)			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation		<u>1,929</u>	<u>(369)</u>
Total comprehensive income/(expenses) for the period		<u><u>33,801</u></u>	<u><u>(24,394)</u></u>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(continued)*

for the six months ended 30 June 2016 — unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30 June 2016	Six months ended 30 June 2015
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit/(loss) for the period attributable to:		
Owners of the Company		
— Continuing operations	22,716	(30,012)
— Discontinued operation	—	6,710
Non-controlling interests		
— Continuing operations	9,156	(74)
— Discontinued operation	—	(649)
	<u>31,872</u>	<u>(24,025)</u>
Total comprehensive income/(expenses) attributable to:		
Owners of the Company		
— Continuing operations	24,645	(30,381)
— Discontinued operation	—	6,710
Non-controlling interests		
— Continuing operations	9,156	(74)
— Discontinued operation	—	(649)
	<u>33,801</u>	<u>(24,394)</u>
Earning/loss per share <i>(HK\$)</i>		
From continuing and discontinued operations		
— basic and diluted	9 0.03	(0.04)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2016 — unaudited

(Expressed in Hong Kong dollars)

		At 30 June 2016 HK\$ '000	At 31 December 2015 HK\$ '000
	<i>Note</i>		
Non-current assets			
Property, plant and equipment		553	265
Intangible assets	<i>10</i>	101,846	114,633
		<u>102,399</u>	<u>114,898</u>
Current assets			
Inventories	<i>11</i>	236,714	252,238
Film rights investment	<i>12</i>	101,796	100,619
Trade and other receivables	<i>13</i>	606,310	238,741
Bank balances and cash		15,550	21,160
		<u>960,370</u>	<u>612,758</u>
Current liabilities			
Trade and other payables	<i>15</i>	95,231	90,646
Tax payable		124,425	93,222
Loan from a shareholder	<i>14(a)</i>	65,150	50,000
Other loans	<i>14(b)</i>	250,000	—
		<u>534,806</u>	<u>233,868</u>
Net current assets		<u>425,564</u>	<u>378,890</u>
NET ASSETS		<u>527,963</u>	<u>493,788</u>
CAPITAL AND RESERVES			
Share capital		8,101	8,101
Share premium and reserves		516,414	491,769
Equity attributable to owners of the Company		524,515	499,870
Non-controlling interests		3,448	(6,082)
		<u>527,963</u>	<u>493,788</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 BASIS OF PREPARATION

These interim financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (HKAS) 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). They were authorised for issuance on 29 August 2016.

These interim financial statements have been prepared in accordance with the same accounting policies adopted in the financial statements for the year ended 31 December 2015, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of interim financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

These interim financial statements contain condensed consolidated financial statements and selected explanatory notes. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs), which term collectively includes HKASs and Interpretations issued by the HKICPA.

These interim financial statements are unaudited, but have been reviewed by the audit committee of the Company. The financial information relating to the year ended 31 December 2015 that is included in the interim financial statements as being previously reported information does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2015 are available from the Company’s head office and principal place of business in Hong Kong. The auditor has expressed an unmodified opinion on those financial statements in their report dated 30 March 2016.

On 20 March 2015, the Company voluntarily wind-up of the WFOE. Since then, the principal activities of the Group are the provision of cross-media services including investment in the production and distribution of films and TV programmes and related services. These interim financial statements have been prepared and the comparative figures have been re-presented to reflect the results of the discontinued business separately.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS *(continued)*
(Expressed in Hong Kong dollars)

2 CHANGES IN ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015. In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKAS 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants
Amendments to HKFRSs	Annual improvements to HKFRSs 2012-2014 cycle
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in the condensed consolidated financial statements and/or disclosures set out in the condensed consolidated financial statements.

3 REVENUE AND SEGMENT INFORMATION

The Group's operating segments, determined based on the information reported to the chief operating decision maker ("CODM"), being the executive directors of the Company, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

During the period ended 30 June 2015, the management has determined that no operating segment should be presented as the Group is only engaged in media related services.

During the period ended 30 June 2016, the management of the Group started the film investment and distribution business and the CODM re-organised the internal reports for resources allocation and performance assessment purposes into three operating divisions, which are stated as follows:

- Television program related business — sales of editing/publishing rights, scripts and synopses as well as licensing of purchased license rights over films and television drama series
- Television and other advertising — sales of television advertising air-times in People's Republic of China (the "PRC")
- Film investment and distribution — distribution of and investment in film rights

As described in more detail in note 7, the Group discontinued a reportable and operating segment regarding the television and other advertising during the period. Accordingly, the segment information regarding its continuing operations reported below does not include the amounts for the television and other advertising.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS *(continued)*
(Expressed in Hong Kong dollars)

3 REVENUE AND SEGMENT INFORMATION *(continued)*

An analysis of the Group's revenue and results by operating and reportable segment is as follows:

For the period ended 30 June 2016

	Films investment and distribution <i>HK\$ '000</i>	Television program related business <i>HK\$ '000</i>	Total <i>HK\$ '000</i>
Revenue	387,701	9,404	397,105
Segment profit	121,037	8,644	129,681
Finance costs			(10,419)
Unallocated expenses			(56,187)
Profit before taxation			<u>63,075</u>

For the period ended 30 June 2015

	Films investment and distribution <i>HK\$ '000</i>	Television program related business <i>HK\$ '000</i>	Total <i>HK\$ '000</i>
Revenue	15,976	32,740	48,716
Segment profit/(loss)	4,170	(18,544)	(14,374)
Finance costs			(4,991)
Unallocated expenses			(5,292)
Loss before taxation (continuing operations)			<u>(24,657)</u>

All of the segment revenue reported above are from external customers.

Segment profit/loss represents the profit/loss incurred by each segment without allocation of unallocated other income and unallocated expenses (which mainly include central administration costs, director's emoluments, and gain on disposal of subsidiaries) and finance costs. This is the measure reported to the CODM for the purpose of resource allocation and assessment of segment performance.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS *(continued)*
(Expressed in Hong Kong dollars)

4 OTHER INCOME (EXPENSE)

(a) Other income

	Six months ended 30 June 2016	Six months ended 30 June 2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Gain on disposal of subsidiaries	—	—
Interest income	2	1
Others	164	8
	<u>166</u>	<u>9</u>

(b) Other expenses

	Six months ended 30 June 2016	Six months ended 30 June 2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net exchange loss	(10,109)	(688)
	<u>(10,109)</u>	<u>(688)</u>

5 PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is arrived at after charging:

(a) Finance costs

	Six months ended 30 June 2016	Six months ended 30 June 2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank advances and other borrowings wholly repayable within five years	7,500	2,762
Loan from a shareholder	2,919	2,229
Total finance costs	<u>10,419</u>	<u>4,991</u>

(b) Other items

	Six months ended 30 June 2016	Six months ended 30 June 2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amortisation of intangible assets	7,213	8,700
Depreciation of fixed assets	68	126
	<u>7,281</u>	<u>8,826</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS *(continued)*
(Expressed in Hong Kong dollars)

6 INCOME TAX EXPENSE

	Six months ended 30 June 2016	Six months ended 30 June 2015
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Current taxation — Hong Kong Profits Tax	—	—
Current taxation — Outside Hong Kong	31,203	5,429
	<u>31,203</u>	<u>5,429</u>

- (a) The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2015: 16.5%) to the six months ended 30 June 2016.

No provision has been made for Hong Kong Profits Tax during the six months ended 30 June 2016 and 2015 as the Group did not earn any income subject to Hong Kong Profits Tax.

- (b) The provision for PRC income tax is made as follows:

- For subsidiaries which are foreign investment enterprises located and operated in the PRC, and approved for establishment prior to 16 March 2007 by the State Administration of Industrial and Commerce, the Corporate Income Tax Law of the PRC provides a five- year transition period during which the transitional rates are 18%, 20%, 22%, 24% and 25% for the years ended 31 December 2008, 2009, 2010, 2011 and 2012 onwards, respectively. The PRC corporate income tax rate applicable to these subsidiaries is 25% for the six months ended 30 June 2013 and the periods thereafter. Profits of other subsidiaries established in the PRC are subject to PRC corporate income tax at 25%.
- Foreign enterprises with permanent establishment in the PRC are subject to PRC corporate income tax at a rate of 25% on a deemed profit basis on their PRC sourced income.

7 DISCONTINUED OPERATION

On 20 March 2015, Bounty Gain, the sole shareholder of wholly foreign owned enterprise (the “WFOE”) and subsidiary of the Company, voluntarily wind-up the WFOE. The WFOE is an indirectly non-wholly-owned subsidiary of the Company.

The WFOE is a wholly foreign owned enterprise established in Guangzhou, the PRC on 15 February 2011 with a registered capital of RMB100,000 (equivalent to approximately HK\$125,000). The approved duration of operation of the WFOE is 30 years commencing from 15 February 2011.

On 11 March 2011, the Company, via a wholly-owned subsidiary, agreed to acquire the effective majority control of the WFOE, which had become an exclusive consultancy service provider principally engaging in the television advertising agency business in the PRC.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS *(continued)*
(Expressed in Hong Kong dollars)

7 DISCONTINUED OPERATION *(continued)*

The profit for the period from the discontinued operations is analysed as follows:

	Six months ended 30 June 2016	Six months ended 30 June 2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss of discontinued operations for the period	—	(1,443)
Gain on disposal of discontinued operation	—	7,504
	<u>—</u>	<u>6,061</u>

The results of the discontinued operations for the period from 1 January, 2015 to 20 March 2015, which have been included in the consolidated statement of profit or loss and other comprehensive income, are analysed as follows:

	Six months ended 30 June 2016	Six months ended 30 June 2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	—	22,618
Cost of sales	—	(22,950)
Gross loss	—	(332)
Other income	—	2
Administrative and other expenses	—	(1,113)
Loss before taxation	—	(1,443)
Taxation	—	—
Loss for the periods	<u>—</u>	<u>(1,443)</u>

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS *(continued)*
(Expressed in Hong Kong dollars)

7 DISCONTINUED OPERATION *(continued)*

Loss before taxation from discontinued operations has been arrived at after charging (crediting):

	Six months ended 30 June 2016	Six months ended 30 June 2015
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Depreciation of fixed assets	—	30
Amortisation of intangible assets	—	—
Interest income	—	(2)
	<u> </u>	<u> </u>

8 DIVIDENDS

No final dividend in respect of year ended 31 December 2015 and no interim dividend of six months ended 30 June 2016 were paid and declared during the current period.

9 EARNING/LOSS PER SHARE

(a) Basic earning/loss per share

The calculation of basic earning per share is based on the profit attributable to ordinary equity shareholders of the Company of HK\$22,716,000 (2015: loss attributable to ordinary equity shareholders of the Company of HK\$23,302,000) and the weighted average number of 810,058,000 ordinary shares in issue during the period (2015: 632,183,000 ordinary shares), calculated as follows:

Weighted average number of ordinary shares

	Six months ended 30 June 2016	Six months ended 30 June 2015
	<i>'000</i>	<i>'000</i>
Issued ordinary shares at 1 January	810,058	562,558
Effect of placement of shares	—	69,625
	<u> </u>	<u> </u>
Weighted average number of ordinary shares at 30 June	<u>810,058</u>	<u>632,183</u>

(b) Diluted earning/loss per share

The diluted earning/loss per share for the six months ended 30 June 2016 and 2015 are the same as the basic earning/loss per share as the outstanding share options, equity settled share-based transactions and conversion options for the convertible notes during the periods have anti-dilutive effect to the basic earning/loss per share. The then status of condition was assumed unchanged and thus the condition of reset and adjustment were not met.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS *(continued)*
(Expressed in Hong Kong dollars)

10 INTANGIBLE ASSETS

	At 30 June 2016 HK\$'000	At 31 December 2015 HK\$'000
Purchased licence rights	101,846	114,633

11 INVENTORIES

The inventories as at 30 June 2016 represent the cost of acquisition of certain scripts, synopses, publication rights, publishing rights and editing rights purchased by the Group, which are held by the Group for re-sale in the ordinary course of business. They are carried at the lower of cost and net realisable value.

An impairment loss of HK\$15,524,000 was recognised for the period ended 30 June 2016 (2015: HK\$13,532,000) due to the continuous unsatisfactory results from the sale of these works.

12 FILM RIGHTS INVESTMENT

	At 30 June 2016 HK\$'000	At 31 December 2015 HK\$'000
As at 1 January	100,619	43,243
Additions	258,525	77,840
Recognised as an expense included in cost of sales	(257,345)	(20,464)
Exchange adjustment	(3)	—
As at 30 June/As at 31 December	101,796	100,619

The costs of film rights are recognised as an expense in cost of sales based on the proportion of actual income earned from a film during the year to the total estimated income from exhibition of the film attributable to the Group, according to the profit sharing ratio specified in the film investment agreements.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS *(continued)*
(Expressed in Hong Kong dollars)

13 TRADE AND OTHER RECEIVABLES

	At 30 June 2016 <i>HK\$ '000</i>	At 31 December 2015 <i>HK\$ '000</i>
Trade receivables	418,540	171,381
Deposits, prepayments and other receivables	187,770	67,360
	<u>606,310</u>	<u>238,741</u>

The Group allows an average credit period of 90-180 days to its contract sales of editing rights.

Trade customers from the licensing income are allowed a credit period of 180 days from the date of signing the contracts.

Trade receivables from film investment income are usually received within 90 days after the related films have been withdrawn from circuit.

14 LOAN FROM A SHAREHOLDER AND OTHER LOANS

(a) Loan from a shareholder

As at 30 June 2016, loan from a shareholder to the Group of HK\$65,150,000 (31 December 2015: HK\$50,000,000) is unsecured, interest-bearing at 10% per annum.

(b) Other loans

The other loans borrowed by the subsidiaries of the Company, are unsecured and interest-bearing.

15 TRADE AND OTHER PAYABLES

All accruals and other payable are expected to be settled within one year or payable on demand.

16 PENDING LITIGATION

An action was commenced by a business partner against a subsidiary of the Group in December 2013 in Beijing People's Court in respect of an alleged settlement of sums payable to this business partner of approximately RMB30,930,000 (equivalent to approximately HK\$36,112,000), plus interest thereon.

The directors have confirmed that no settlement had been reached by the parties and no judgement on the quantum of damages had been made against the Group in respect of the legal action. The Group has sought legal advice from its legal counsel on the merits of the claim. As of the date of this announcement, the eventual outcome of the legal action is still uncertain.

The directors are of the view that the quantum of the ultimate cost and damages (if any) to be incurred by the Group will not have a material adverse impact on the Group's consolidated financial position as a provision for the potential settlement of RMB30,930,000 (equivalent to approximately HK\$36,112,000) had been made.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS *(continued)**(Expressed in Hong Kong dollars)***17 EVENT AFTER THE REPORTING PERIOD**

On 29 July 2016, the Company announced a proposed issue of notes in the aggregate principal sum of HK\$315,000,000 and convertible bonds with an aggregate principal amount of HK\$35,000,000 and which carry conversion rights to convert up to 51,851,851 Conversion Shares at the Conversion Price (being the initial price of HK\$0.675 per Conversion Share which is subject to normal adjustment) during the Conversion Period. Details of the notes and convertible bonds are disclosed in the Company's announcement dated 29 July 2016. Afterwards, all conditions precedent to the Subscription Agreement have been fulfilled and that Completion of the issue of the notes and convertible bonds took place on 8 August 2016.

On 8 August 2016, the Company jointly announced a proposed issue of notes in an aggregate principal amount of HK\$200,000,000 and convertible bonds an aggregate principal amount of HK\$100,000,000 and which carry conversion rights to convert up to 148,148,148 Conversion Shares at the Conversion Price (being the initial price of HK\$0.675 per Conversion Share which is subject to adjustment) during the Conversion Period. Details of the notes and convertible bonds are disclosed in the Company's announcement dated on 8 August 2016. Afterwards, all conditions precedent to the Subscription Agreement have been fulfilled and that Completion of the issue of the notes took place on 9 August 2016.

INDEBTEDNESS

As at the close of business on 31 August 2016, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this Composite Document, the Group had the following outstanding indebtedness with aggregate principal amount of HK\$550 million.

	HK\$ (million)	Annual Interest rate	Corporate Guarantee	Due Date
Convertible Bonds	35	5.0%	Given by SMI Holdings	August 2017
Notes	515	5.0%	Given by SMI Holdings	August 2017

Save for disclosed, as at the close of business on 31 August 2016, the Group did not have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptances credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

MATERIAL CHANGE

The Directors confirm that (save and except for the following) there had been no material change in the financial or trading position or outlook of the Group since 31 December 2015, being the date to which the latest published audited consolidated financial statements of the Company were made up, and up to and including the Latest Practicable Date:

1. On 29 July 2016, the Company announced that a subscription agreement was entered into between the Company, Cheer Hope and SMI Holdings, pursuant to which the Company had conditionally agreed to issue and Cheer Hope had conditionally agreed to subscribe notes in the aggregate principal sum of HK\$315,000,000 and convertible bonds with an aggregate principal amount of HK\$35,000,000 and which carry conversion rights to convert up to 51,851,851 Shares at the initial conversion price of HK\$0.675 per conversion Share during the conversion period. On 8 August 2016, the Company announced that all conditions precedent to the aforesaid subscription agreement have been fulfilled and that completion of the issue of the notes and convertible bonds took place on 8 August 2016.
2. On 8 August 2016, the Company announced that a subscription agreement was entered into between the Company and Ever Ascend, pursuant to which the Company had conditionally agreed to issue and Ever Ascend had conditionally agreed to subscribe notes in an aggregate principal amount of HK\$200,000,000 and convertible bonds an aggregate principal amount of HK\$100,000,000, which carry conversion rights to convert up to 148,148,148 Shares at the initial conversion price of HK\$0.675 per conversation Share during the conversion period. On 9 August 2016, the Company announced that all conditions precedent to the aforesaid subscription agreement in respect of the issue of the notes have been fulfilled and that completion of the issue of the notes took place on 9 August 2016.

3. As disclosed in the announcement of interim results for the six months ended 30 June 2016 of the Group (the “**2016 Interim Results**”), there have been certain material changes in the financial or trading position or outlook of the Group since 31 December 2015 and, in particular, the Directors note as follows:
- a. the increase in the Group’s revenue to approximately HK\$397.1 million for the six months ended 30 June 2016 (“**1H2016**”) from approximately HK\$48.7 million for the corresponding period in 2015 (“**1H2015**”) mainly attributable to the Group’s return on investment in the production of films and television programmes of HK\$387.7 million as compared to HK\$16.0 million for 1H2015;
 - b. administrative and other expenses incurred for 1H2016 amounted to HK\$21.1 million (2015: HK\$10.1 million) while the finance costs increased from HK\$5.0 million for 1H2015 to HK\$21.1 million for 1H2016.
 - c. the Group recorded a net profit of approximately HK\$31.9 million for 1H2016, as compared to a net loss of HK\$24.0 million for 1H2015. As disclosed in the 2016 Interim Results, the main reason for such turn of loss to profit was due to revenue increased from HK\$48.7 million for 1H2015 to HK\$397.1 million for 1H2016 and the amortisation of the Group’s intangible assets decreased from HK\$8.7 million for 1H2015 to HK\$7.2 million for 1H2016.
 - d. Net assets of the Group increased from approximately HK\$493.8 million as at 31 December 2015 to approximately HK\$528.0 million as at 30 June 2016, mainly due to the increase in trade and other receivables, deposits and prepayment and offset by the increase in loan amount.
 - e. Total assets of the Group increased from approximately HK\$727.7 million as at 31 December 2015 to approximately HK\$1,062.8 million as at 30 June 2016. The Group’s total assets as at 30 June 2016 mainly comprised trade and other receivables of approximately HK\$606.3 million, inventories of HK\$236.7 million, film rights investment of HK\$101.8 million.
 - f. Total liabilities of the Group increased from approximately HK\$233.9 million as at 31 December 2015 to approximately HK\$425.6 million as at 30 June 2016. The Group’s total liabilities as at 30 June 2016 mainly comprised trade and other payables of HK\$95.2 million, tax payable of 124.4 million, loan from a shareholder of HK\$65.2 million and other loans of HK\$250.0 million borrowed by the subsidiaries of the Company, which are unsecured and interest-bearing.

4. On 5 September 2016, the Company announced that a subscription agreement was entered into between the Company and Cheer Hope, pursuant to which the Company had conditionally agreed to issue and Cheer Hope had conditionally agreed to subscribe convertible bonds an aggregate principal amount of HK\$65,000,000, which carry conversion rights to convert up to 96,296,296 Shares at the initial conversion price of HK\$0.675 per conversion Share during the conversion period. The convertible bonds will be secured by a guarantee provided by SMI Holdings.

RESPONSIBILITY STATEMENT

The information contained in this Composite Document relating to SMI Group and the Offeror, the terms of the Offers and the intentions of the Offeror in respect of the Group have been supplied by SMI Holdings and the Offeror. The directors of SMI Holdings and the Offeror jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than the information relating to the Group), and confirm, having made all reasonable enquires, that to the best of their knowledge, opinions expressed in this Composite Document (other than opinions expressed by the Group) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

DISCLOSURE OF INTERESTS IN THE COMPANY

As at the Latest Practicable Date, details of interests in the Shares, underlying Shares, debentures or other relevant securities of the Company held or controlled by the Offeror and parties acting in concert with it were as follows:

Name	Number of Shares held	% of interest
The Offeror (<i>Note</i>)	367,477,281	45.36

Note: The Offeror is wholly owned by SMI Holdings.

Save as disclosed above, as at the Latest Practicable Date, none of the Offeror, SMI Holdings and parties acting in concert with it had any interest in the relevant securities of the Company.

DISCLOSURE OF OTHER INTERESTS AND DEALINGS IN SECURITIES OF THE COMPANY

As at the Latest Practicable Date:

- (a) save as disclosed below, none of the Offeror or parties acting in concert with it has dealt in any Shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period.

Date (2016)	Purchase/Sale on market by the Offeror	Number of Shares	Price per Share
5 September	Purchase	335,000	HK\$0.60 to HK\$0.61
5 September	Sale	335,000	HK\$0.61
5 September	Purchase	21,030,000	HK\$0.70
9 September	Purchase	7,000,000	HK\$0.79
9 September	Purchase	23,000,000	HK\$0.78
13 September	Purchase	5,000,000	HK\$0.80
22 September	Purchase	20,000,000	HK\$0.80
23 September	Purchase	18,225,000	HK\$0.80
26 September	Purchase	270,000	HK\$0.80
27 September	Purchase	30,000,000	HK\$0.80

- (b) save as disclosed, none of the Offeror and/or parties acting in concert with it owned or had control over any voting rights or rights over the Shares, options, derivatives, warrants or other securities convertible into Shares;
- (c) save for the Facility granted by Emperor Securities to the Offeror, there was no agreement, arrangement or understanding that any securities acquired in pursuance of the Offers would be transferred, charged or pledged to any other persons;
- (d) none of the Offeror and parties acting in concert with it has received any irrevocable commitment to accept the Offers;
- (e) no benefit (other than statutory compensation) was or would be given to any Director as compensation for his loss of office or otherwise in connection with the Offers;
- (f) there is no agreement or arrangement to which the Offeror is a party which relates to circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Offers;
- (g) there was no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror or any party acting in concert with it on one hand and any Directors, recent Directors, Shareholders or recent Shareholders on the other hand, having any connection with or dependence upon the Offers;
- (h) no arrangement (whether by way of option, indemnity or otherwise) of the kind referred to in Note 8 to Rule 22 of the Takeovers Code in relation to the shares of the Offeror or the Shares and which might be material to the Offers exists between the Offeror, the Company or an associates of the Offeror or the Company;
- (i) none of the Offeror and parties acting in concert with it has borrowed or lent any Shares, convertible securities, warrants, options or derivatives in the Company during the Relevant Period;
- (j) save for the Bondholders Undertakings, no other person had irrevocably committed himself to accept or reject the Offers;
- (k) no Shares or convertible securities, warrants, options or derivatives of the Company was owned or controlled by a person with whom the Offeror or any party acting in concert with it had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code, and no such person had dealt in any Shares or convertible securities, warrants, options or derivatives of the Company during the Relevant Period; and

- (l) no Shares, convertible securities, warrants, options or derivatives of the Company was managed on a discretionary basis by any fund managers connected with the Offeror and/or parties acting in concert with it, and no such person had dealt in any Shares or convertible securities, warrants, options or derivatives of the Company during the Relevant Period.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) on the website of the SFC (www.sfc.hk); (ii) on the website of the Company (www.smiculture2366.com); and (iii) at the principal place of business of the Company on Business Days during normal business hours from 9:00 a.m. to 5:00 p.m. at 19/F., Prosperity Tower, No. 39 Queen's Road Central, Central, Hong Kong from the date of this Composite Document onwards for as long as the Offers remain open for acceptance:

- (i) the articles of association of the Offeror valid as at the Latest Practicable Date;
- (ii) the letter from Emperor Capital, the text of which is set out on pages 9 to 19 of this Composite Document;
- (iii) the written consent of Emperor Capital as referred to in the paragraph headed "Experts and consents" in Appendix IV to this Composite Document;
- (iv) the loan agreement dated 8 September 2016 in relation to the Facility; and
- (v) the Bondholders Undertakings.

GENERAL

- (i) the Offeror is a company incorporated in Hong Kong with limited liability and is a wholly-owned subsidiary of SMI Holdings, the issued shares of which are listed on the Main Board of the Stock Exchange (Stock code: 198). As at the Latest Practicable Date, SMI Holdings was held by Mr. Qin Hui as to approximately 59.79% by himself directly and as to approximately 0.05% through Strategic Media indirectly.
- (ii) Strategic Media is wholly-owned by Mr. Qin Hui. Its registered office address is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.
- (iii) The sole director of the Offeror is Mr. Yang Rongbing. The sole director of Strategic Media is Mr. Qin Hui. The directors of SMI Holdings are Mr. Cheng Chi Chung, Mr. Yang Rongbing, Dr. Yap Allan, Mr. Pang Hong, Mr. Li Fusheng and Mr. Li Wing Yin.
- (iv) The registered office of the Offeror is Suite 6701-2 & 13, 67/F., The Center, 99 Queen's Road Central, Central, Hong Kong.

- (v) The registered address of SMI Holdings is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.
- (vi) The correspondence address of Mr. YANG Rongbing, who is the sole director of the Offeror, is at Room 6701-2 & 13, 67/F., The Center, 99 Queen's Road Central, Central, Hong Kong.
- (vii) The registered office of Emperor Capital is situated at 28/F, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong.
- (viii) In the event of inconsistency, the English texts of this Composite Document and the Forms of Acceptance shall prevail over their respective Chinese texts.

RESPONSIBILITY STATEMENT

This Composite Document includes particulars given in compliance with the Takeovers Code for the purpose of providing information to the Independent Shareholders and Bondholders with regard to the Offeror, the Group and the Offers.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than that relating to the Offeror and parties acting in concert with it) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by the Offeror and parties acting in concert with it) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statements in this Composite Document misleading.

This Composite Document, for which all Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than the information relating to the Offeror and parties acting in concert with it), is in compliance with the Listing Rules. The Directors confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the information contained in this Composite Document (other than the information relating to the Offeror and parties acting in concert with it) is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this Composite Document misleading.

SHARE CAPITAL

As at the Latest Practicable Date, the authorised share capital of the Company was HK\$1,000,000,000 divided into 100,000,000,000 Shares of HK\$0.01 each. The number of issued and paid-up Shares of the Company as at the Latest Practicable Date was 810,057,684 Shares.

All the Shares in issue rank *pari passu* in all respects with each other, including as to rights in respect of capital and dividends and voting. The Company has not issued any Shares since 31 December 2015, being the date to which the latest audited financial statements of the Company were made up, and up to the Latest Practicable Date.

As at the Latest Practicable Date, there were 810,057,684 Shares in issue, of which the Offeror and parties acting in concert with it held 367,477,281 Shares, representing approximately 45.36% of the issued share capital of the Company.

As at the Latest Practicable Date, the Company has outstanding convertible bonds in the principal amount of HK\$35,000,000. With reference to the announcements of the Company dated 8 August 2016, 12 August 2016, 5 September 2016 and 6 September 2016, the Company entered into subscription agreements with a wholly owned subsidiary of each of CCB International (Holdings) Limited and Huarong International Financial Holdings Limited, subject to terms and conditions thereto, the Company shall issue convertible bonds in an aggregate principal amount of HK\$165,000,000 with an initial conversion price of HK\$0.675 per conversion share. Upon full conversion of the CBs, Cheer Hope CB and Ever Ascend CB prior to the close of the Offers, additional 296,296,296 conversion Shares shall be issued and the enlarged Share capital in issue would be 1,106,353,980 Shares.

Save as disclosed in this Composite Document, the Company had no options, warrants, derivatives or other securities that carry a right to subscribe for or which are convertible into Shares as at the Latest Practicable Date.

MARKET PRICES

The table below sets out the closing prices per Share as quoted on the Stock Exchange on the Latest Practicable Date and the Last Trading Day of each of the calendar months during the Relevant Period on which trading of the Shares took place:

	Closing prices per Share <i>(HK\$)</i>
31 March 2016	0.57
29 April 2016	0.58
31 May 2016	0.495
30 June 2016	0.465
29 July 2016	0.485
31 August 2016	0.59
5 September 2016 (Last Trading Day)	0.70
27 September 2016 (Latest Practicable Date)	0.81

During the Relevant Period:

- (a) the highest closing price of the Shares as quoted on the Stock Exchange was HK\$0.82 on 9 September 2016, 14 September 2016 and 19 September 2016; and
- (b) the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$0.435 on 14 July 2016 and 15 July 2016.

DISCLOSURE OF INTERESTS

(a) Directors and chief executives' interests and short positions in shares, underlying shares and debentures of the Company and its associated corporations.

As at the Latest Practicable Date, none of the Directors and the chief executives of the Company, including their respective associates had any interests or short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange (a) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under the provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

(b) Substantial shareholders' interests and short positions in shares, underlying shares and securities of the Company.

As at the Latest Practicable Date, according to the register kept by the Company pursuant to Section 336 of the SFO and, so far as is known to the Directors, the persons or entities who had an interest or a short position in the Shares or the underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were, directly or indirectly, interested in ten per cent. or more of the issued voting shares of any other member of the Group, or in any options in respect of such share capital were as follows:

Names	Capacity	Number of Shares	Approximate percentage of interest in the Company's issued share capital
The Offeror and parties acting in concert with it	Beneficial owner	367,477,281	45.36%

Save as disclosed above, so far as is known to the Directors, as at the Latest Practicable Date, no person had an interest or a short position in the Shares or the underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, directly or indirectly, interested in ten per cent. or more of the issued voting shares of any other member of the Group, or any options in respect of such share capital.

Save as disclosed above, as at the Latest Practicable Date, no other person had any interest or short position in the Shares or underlying shares of the Company recorded in the register required to be kept by the Company under section 336 of the SFO.

INTERESTS IN THE COMPANY AND THE OFFEROR AND ARRANGEMENTS IN CONNECTION WITH THE OFFERS

As at the Latest Practicable Date:

- (i) no arrangement was in place for any benefit to be given to any Director as compensation for loss of office or otherwise in connection with the Offers;
- (ii) there were no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company which the Company, Directors, had borrowed or lent;
- (iii) none of the subsidiaries of the Company and pension fund of the Company or of a subsidiary of the Company or an adviser to the Company as specified in class (2) of the definition of “associate” in the Takeovers Code owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company;
- (iv) there was no arrangement (whether by way of option, indemnity or otherwise) of any kind referred to in Note 8 to Rule 22 of the Takeovers Code which might be material to the Offers;
- (v) no Shares, convertible securities, warrants, options or derivatives of the Company were managed on a discretionary basis by fund managers connected with the Company;
- (vi) there was no agreement or arrangement between any Director and any other person which was conditional on or dependent upon the outcome of the Offers or otherwise connected with the Offers;
- (vii) no material contracts have been entered into by the Offeror in which any Director has a material interest; and
- (viii) none of the Directors held any Shares in respect of which they would accept or reject the Share Offer.

DEALING IN SECURITIES AND OTHER ARRANGEMENTS

During the Relevant Period:

- (i) none of the Directors have dealt in any Shares, options, derivatives, warrants or other securities convertible into the Shares or other types of equity interest in the Company;
- (ii) none of the subsidiaries of the Company or any pension funds of the Group or any adviser to the Company as specified in class (2) of the definition of “associate” under the Takeovers Code (but excluding exempt principal traders) had dealt for value in the Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;
- (iii) no persons who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) or (4) of the definition of “associate” under the Takeovers Code had dealt for value in the Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;
- (iv) no fund managers (other than exempt fund managers) connected with the Company who managed funds on a discretionary basis had dealt for value in the Shares or any convertible securities, warrants, options or derivatives in respect of any Shares; and
- (v) none of the Company and the Directors has any beneficial interest in the Shares, convertible securities, warrants, options and derivatives of the Offeror and SMI Holdings, and the Company and the Directors had not dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Offeror and SMI Holdings during the Relevant Period.

DIRECTORS’ SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into a service contract with any member of the Group or the associated companies of the Company which:

- (i) have been entered into or amended (including both continuous and fixed term contracts) within 6 months prior to the commencement of the Offer Period;
- (ii) are continuous contracts with a notice period of 12 months or more; or
- (iii) are fixed term contracts with more than 12 months to run irrespective of the notice period.

None of the Directors will be or has been given any benefits (save for any statutory compensation required under appropriate laws) as compensation for loss of office or otherwise in connection with the Offers.

EXPERTS AND CONSENTS

The following is the qualification of the experts who have given opinion or advice contained in this Composite Document.

Name	Qualification
Emperor Capital	a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO which is making the Offers on behalf of the Offeror and the financial adviser to the Offeror in respect of the Offer
BaoQiao	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, each of Emperor Capital and BaoQiao did not have any shareholding, direct or indirect, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did it have any direct or indirect interest in any assets which had been, since 31 December 2015, being the date of the latest published audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

Each of Emperor Capital and BaoQiao has given and has not withdrawn its respective written consent to the issue of this Composite Document with the inclusion of its letter and references to its name in the form and context in which they appear respectively.

LITIGATION

As at the Latest Practicable Date, none of the Company and its subsidiaries was engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance is pending or threatened by or against the Company or any member of the Group.

MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Company or any of its subsidiaries, were entered into by any member of the Group after the date falling two years before the commencement of the Offer Period up to and including the Latest Practicable Date and are or may be material:

- (i) the placing agreement dated 16 March 2015 entered into by the Company as the issuer and Emperor Securities Limited as the placing agent in respect of the placing of 112,500,000 Shares to not less than six places at the placing price of HK\$0.64 per Share (the “**Placing**”); and the subscription agreement dated 16 March 2015 entered into between the Company and the Offeror in respect of subscription of 112,500,000 Shares at HK\$0.64 per Shares (the “**Emperor First Subscription**”). The Placing was completed on 19 March 2015 and the Emperor First Subscription was completed on 24 March 2015 and the net proceeds from the Subscription was approximately HK\$70 million.
- (ii) the placing agreement dated 2 June 2015 entered into by the Company as the issuer and Emperor Securities Limited as the placing agent in respect of the placing of 135,000,000 Shares to not less than six places at the placing price of HK\$0.93 per Share (the “**Emperor Second Placing**”). The Emperor Second Placing was completed on 23 June 2015 and the net proceeds from the Emperor Second Placing was approximately HK\$122.3 million.
- (iii) the subscription agreement dated 29 July 2016 entered into by the Company as the issuer and Cheer Hope as the investor in respect of the subscription of (i) the notes in the aggregate principal amount of HK\$315,000,000 (the “**Cheer Hope First Notes**”); and (ii) the convertible bonds in an aggregate principal amount of HK\$35,000,000 (the “**Cheer Hope First Bonds**”). Completion of the Cheer Hope First Bonds and the Cheer Hope First Notes took place on 8 August 2016 and the net proceeds from the issue of the Cheer Hope First Bonds and the Cheer Hope First Notes was approximately HK\$345.9 million.
- (iv) the subscription agreement dated 8 August 2016 entered into by the Company as the issuer and Ever Ascend as the investor in respect of the subscription of (i) the notes in the aggregate principal amount of HK\$200,000,000 (the “**Ever Ascend Notes**”); and (ii) the Ever Ascend CB. Completion of the Ever Ascend Notes took place on 9 August 2016 and the completion for the Ever Ascend CB is still pending. The net proceeds from the issue of the Ever Ascend Notes was approximately HK\$196.5 million.

- (v) the subscription agreement dated 5 September 2016 entered into by the Company as the issuer and Cheer Hope as the investor in respect of the subscription for the Cheer Hope CB. The completion of the Cheer Hope CB is still pending and no net proceeds will be raised from the issuance of the Cheer Hope CB as the payment obligations in relation thereto will be set off on a dollar for dollar basis against the amount redeemed under the Supplemented Deed.
- (vi) the supplemental deed dated 5 September 2016 entered into by the Company as the issuer and Cheer Hope as the investor relating to the Cheer Hope First Notes whereby Cheer Hope shall have the right to redeem the Cheer Hope First Notes in the principal amount of HK\$65,000,000 pursuant to the terms therein.

GENERAL

- (i) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and the principal place of business of the Company is at 19/F., Prosperity Tower, No. 39 Queen's Road Central, Central, Hong Kong.
- (ii) The Hong Kong branch share registrar and transfer office of the Company is Union Registrars Limited, Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong.
- (iii) The English texts of this Composite Document and the Forms of Acceptance shall prevail over the Chinese texts, in case of any inconsistency.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection on (i) the website of the SFC (<http://www.sfc.hk>); (ii) the website of the Company at www.smiculture2366.com; and (iii) at the principal place of business of the Company on Business Days during normal business hours from 9:00 a.m. to 5:00 p.m. at 19/F., Prosperity Tower, No. 39 Queen's Road Central, Central, Hong Kong during the period from the date of this Composite Document up to and including the First Closing Date or later date as in compliance with the Takeovers Code:

- (i) the memorandum of association and bye-laws of the Company;
- (ii) the annual reports of the Company for the two financial years ended 31 December 2014 and 2015, respectively;
- (iii) the interim results announcement of the Company dated 29 August 2016 for the six months ended 30 June 2016;
- (iv) the letter from the Board, the text of which is set out in this Composite Document;

- (v) the letter from the Independent Board Committee, the text of which is set out in this Composite Document;
- (vi) the letter from BaoQiao, the text of which is set out in this Composite Document;
- (vii) the written consents referred to in the paragraph headed “Experts and Consents” in this appendix; and
- (viii) the material contracts referred to in the paragraph headed “Material Contracts” in this appendix.