星美文旅

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

SEHK Stock Code : 2366 | 香港聯合交易所股份代號：2366

ANNUAL REPORT 2016

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Corporate Information

BOARD OF DIRECTORS

Executive Directors*

Mr. ZHONG Naixiong *(Chairman)*
(appointed on 11 November 2016)
Mr. KONG Dalu
Ms. YAO Qinyi
(appointed on 24 November 2016)
Mr. HAO Bin *(ex-Chairman)*
(resigned on 4 July 2016)
Mr. WANG Fei *(ex-Chairman)*
(appointed as director on 11 January 2016, as Chairman on 4 July 2016 and resigned on 11 November 2016)
Mr. CHAN Chi To, Antony
(resigned on 24 November 2016)
Mr. JIANG Feng *(ex-President)*
(appointed on 29 April 2016 and resigned on 11 November 2016)
Mr. WANG Hai Yun *(retired on 3 June 2016)*

Independent Non-executive Directors

Mr. RAO Yong *(appointed on 20 January 2017)*
Mr. LIU Xianbo
Mr. WU Chien-Chiang
Mr. DU Jiang *(resigned on 20 January 2017)*

BOARD COMMITTEES

Audit Committee

Mr. RAO Yong *(Chairman)*
(appointed on 20 January 2017)
Mr. LIU Xianbo
Mr. WU Chien-Chiang
Mr. DU Jiang *(ex-Chairman)*
(resigned on 20 January 2017)

Remuneration Committee

Mr. RAO Yong *(Chairman)*
(appointed on 20 January 2017)
Mr. LIU Xianbo
Mr. WU Chien-Chiang
Mr. DU Jiang *(ex-Chairman)*
(resigned on 20 January 2017)

Nomination Committee

Mr. LIU Xianbo *(Chairman)*
Mr. WU Chien-Chiang
Mr. RAO Yong *(appointed on 20 January 2017)*
Mr. DU Jiang *(resigned on 20 January 2017)*

AUTHORISED REPRESENTATIVES

Mr. ZHONG Naixiong
(appointed on 11 November 2016)
Ms. YAO Qinyi
(appointed on 24 February 2017)
Mr. WANG Fei
(appointed on 4 July 2016 and resigned on 11 November 2016)
Mr. CHAN Chi To, Antony
(resigned on 24 February 2017)
Mr. HAO Bin
(resigned on 4 July 2016)

COMPANY SECRETARY

Ms. MUI Ngar May

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F, One Pacific Place
88 Queensway
Hong Kong

* Subsequent to the approval of this annual report, Mr. YUAN Xin was appointed as an executive director of the Company on 6 April 2017.

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

19/F., Prosperity Tower,
No. 39 Queen's Road Central,
Central, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Corporate Services (Bermuda) Limited
(formerly known as Codan Services Limited)
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
Suites 3301-04, 33/F.,
Two Chinachem Exchange Square
338 King's Road
North Point
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Wing Lung Bank Limited

LEGAL ADVISERS

As to Hong Kong Law
Vivien Teu & Co LLP

As to Cayman Islands Law
Conyers Dill & Pearman

As to PRC Law
Duan & Duan

STOCK CODE

2366

WEBSITE

http://www.smiculture2366.com

Chairman's Statement

The chairman (the "Chairman") of the board (the "Board") of directors (the "Director(s)") of SMI Culture & Travel Group Holdings Limited (the "Company") is pleased to present this report (including the audited consolidated results of the Company and its subsidiaries (together referred to as the "Group") for the twelve months ended 31 December 2016 (the "Year")) to the shareholders of the Company.

BUSINESS REVIEW

The Group principally engages in the investment in the production and distribution of films, investment in the production and distribution of television (TV) dramas and creation, production and distribution of new media contents, production and distribution of online and film advertisements, agency operation for films, directors, scriptwriters and artists, and tourism.

Compared with the year 2015, film and TV drama investment was still the core business of the Group. With the favorable conditions of the industry and a maturing market, the Group launched projects with confidence. During the Year, some of the major film and TV drama projects of the Group included The Mermaid, Ip Man 3 and Chongqing Hot Pot. The box office revenue of The Mermaid amounted to RMB3.39 billion while Ip Man 3 and Chongqing Hot Pot also recorded remarkable box office grosses. The success of The Mermaid helped boost the Group's confidence in capturing advantageous market share in the future.

Looking back at 2016, the Chinese film market maintained steady growth with a total national box office receipts of RMB45.71 billion for the year, representing a year-on-year growth of 3.7%, and an increase of 8.9% in the number of audiences to 1.37 billion. Despite of the slowdown in Chinese box office growth, the market size has been expanding steadily.

While maintaining stable investment in films and TV dramas, the Group was also actively developing cultural industry chain related businesses such as sports, entertainment and tourism. The "13th Five-Year Plan" period is a critical moment for China to promote cultural prosperity and development. The Chinese government will speed up the development of the cultural industry in all aspects and further facilitate cultural development and reform so as to support and drive economic development, improve the quality of life of people and enhance the influence of Chinese culture in the global market. Meanwhile, the macro-economic environment in China could still maintain a stable growth and new consumer groups would continue to expand, while Chinese cultural industry will maintain a rapid growth momentum and usher in a golden era of development. The Group will take advantage of the favorable environment to meet the huge demand in the potential market.

PROSPECTS

After years of hard work and development which created the current industry base and scale, the Chinese film market has grown into the most impressive growth engine in the world. Last year, the total number of audiences increased nearly 9% to 1.37 billion, surpassing that of North America for the first time. The total number of screens was also ranked first in the world. These indicate that China has a great potential of growth in its cultural consumer market. In 2017, the Chinese cultural industry will experience further integration of traditional culture and emerging culture in an intensive and meticulous manner. The consumption of cultural services including tourism and entertainment will continue to be strong. Faced with such favorable opportunities, the Group will explore cultural resources thoroughly and further develop its existing cultural mix. We believe we can yield fruitful results in a number of areas in the future.

Looking forward, the Group will consolidate its existing businesses and at the same time continue to expand its business scope. The Group will also increase its investment proportions in sports, entertainment and tourism, expand its source of income and continuously come up with innovative business models, with an aim to become the leader of the cultural industry in the Greater China region. Following the announcement in relation to the proposed acquisition of the target company which was engaged in the Asian entertainment industry at the end of last year, the Group expects to leverage on its experience and advantages in the industry to gradually develop the businesses of concert production, concert organization and project planning for performers in the future.

Last August, the name of the Company was changed from "SMI Culture Group Holdings Limited" to "SMI Culture & Travel Group Holdings Limited", which can better reflect the business focus and direction for future development of the Company and enable the Group to continue its business expansion in the cultural industry, domestically and overseas. Against the backdrop of a slowdown in China's overall growth and economic growth in recent years, the growth rate of the cultural industry has always been higher than that of gross domestic product for the corresponding periods. The cultural industry will become one of the pillar industries of the Chinese economy in the future. Huge consumption potential, rapid development of the Internet as well as domestic and international market demand are essential elements for the Group to vigorously develop new businesses in the future.

APPRECIATION

Following the resignation of Mr. HAO Bin and Mr. WANG Fei on 4 July 2016 and 11 November 2016 respectively, I have succeeded them as chairman of the Group. I would like to take this opportunity to thank Mr. HAO and Mr. WANG for their dedication and contributions to the Group and the Company over the past years.

The Group has experienced various difficulties in the course of its business development. I am profoundly grateful to the business partners and shareholders for their unceasing support. I would also like to express my heartfelt thanks to the customers, suppliers and employees for their contributions.

The Group looks forward to their continued support for the betterment of its business in the years to come.

On behalf of the Board
SMI Culture & Travel Group Holdings Limited

ZHONG Naixiong
Chairman of the Board of Directors

31 March 2017

Management Discussion and Analysis

BUSINESS REVIEW

During the year ended 31 December 2016 (the "Year"), the size of China's movie market still expanded steadily and maintained steady growth as compared with that of 2015. Leveraged on its increasingly mature business model and unshakable market position, the Group launched film and TV drama investment projects with confidence. With the diversities in the industry and the emergence of new talents, the Group took advantage of the joint investments in quality film projects under this macro environment, and provided strong support in its course to enhance core competitiveness and increase market share.

Looking back at 2016, China's movie market still expanded and grew steadily. The total box office receipts was approximately RMB46 billion, representing a growth of 3.7%. As watching movies in cinemas has become a popular entertainment among the Chinese people in recent years, the film industry will continue to develop steadily, transform and upgrade. While focusing on China's movie market, the Group took advantage of the timing and the trend, and grasped the opportunity by launching three movies: The Mermaid, Ip Man 3 and Chongqing Hot Pot during the Year. The box office revenue of The Mermaid amounted to RMB3.39 billion, topping the 2016 box office chart, which affirmed the Company's vision and strength in the business of film and TV drama investment.

With the solid operation of the Group's film and TV drama projects, the Group also grasped the opportunity of the cultural industry's rapid growth, actively predicted and responded to the new trends of diverse development in cultural industry and changes in market demand, and continued to focus on contents supply.

REVIEW OF OPERATIONS

During the financial year ended 31 December 2016, the Group recorded a turnover of HK$548.4 million (2015: HK$191.4 million). Profit for the financial year was HK$26.4 million (2015: HK$18.6 million), administrative expenses was HK$31.1 million (2015: HK$26.8 million), impairment loss for intangible assets was HK$13.7 million (2015: HK$23.7 million), provision for inventories was HK$4.2 million (2015: HK$11.4 million), finance costs was HK$47.9 million (2015: HK$5.4 million), fair value change of the embedded derivatives was HK$61.7 million (2015: HK$Nil) and income tax expense was HK$47.9 million (2015: HK$37 million).

LIQUIDITY AND FINANCIAL RESOURCES

The Group has consistently managed its liquidity and financial resources in a prudent manner. As at 31 December 2016, the Group's cash level stood at HK$408.8 million (2015: HK$21.2 million). The balances are mainly denominated in Hong Kong Dollar and Renminbi. With cash in hand and external facilities available, the Group has sufficient financial resources to satisfy its commitments and working capital requirements.

Gearing ratio (expressed as a percentage of the Group's total borrowings net of pledged deposits over total equity) was approximately 139.3% as at 31 December 2016 (2015: 10.1%).

MORTGAGES AND CHARGES

As at 31 December 2016, the Group had no significant mortgages and charges.

DISPOSAL OF SUBSIDIARIES

Details of the disposal of subsidiaries are set out in note 31 to the consolidated financial statements.

ACQUISITION OF SUBSIDIARIES/ GOODWILL

Details of the acquisition of subsidiaries and goodwill are set out in note 33 to the consolidated financial statements.

EXPOSURE TO FOREIGN EXCHANGE RISK

There have been no significant changes in the Group's policy in terms of exchange rate exposure. Transactions of the Group are mainly denominated in either Hong Kong Dollar or Renminbi. However, the management monitors closely the exposures and will consider hedging the exposures should the need arise.

EVENTS AFTER THE REPORTING PERIOD

Detail of the events after the reporting period are set out in note 35 to the consolidated financial statements.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2016, the Group had a total staff of 18 (2015: 28). Employees are remunerated based on their performance, experience and the prevailing industry practices, with compensation policies and packages being reviewed on a regular basis. Bonus payments are discretionary and determined according to the Group's performance and the performance of the individual employees. Benefits include retirement schemes, medical and dental insurance and share option scheme.

FINAL DIVIDEND

The Directors have not recommended the payment of a dividend for the financial year ended 31 December 2016 (2015: Nil).

PROSPECTS

With the robust growth in box office sales in recent years, it is evident that the Chinese audience has a constantly rising demand for entertainment contents. On the basis of the strong growth experienced in 2015, various statistics show that the market is at a stage of steady and healthy growth, despite the domestic film market saw a decelerated growth in 2016. The Group will continue its effort in developing its core business, and look for investment opportunities in film and TV drama projects as well as in enterprises in the entertainment industry chain. The Group plans to further expand its know-how and resources in the content creation and distribution business, cooperate with enterprises in the upstream industry chain, establish its own IP product library and carry out pilot tests selectively on high quality internet platforms.

In addition, with the complex and ever-changing operating mode and strong consumption power in the domestic market, the Group will take the opportunity to work hard and expand its foothold in businesses related to the cultural industry chain, such as tourism, entertainment and sports. The PRC government published the "Outline of the 13th Five-Year Plan on Economic and Social Development in the PRC" ("中華人民共和國國民經濟和社會發展第十三個五年規劃綱要"), and promoted the tourism industry as a strategic pillar industry. The demand for tourism has slowly developed from a stage of superficial sightseeing into a stage of spiritual, mental and emotional extensions. The Group will continue to leverage on its advantages, and through its SMI International Travel Agency (HK) Company Limited, gradually launch cultural tourism business in the domestic and overseas markets while strengthening its strategic position in the industry.

According to data from the National Bureau of Statistics, the domestic per capita disposable income increased at an annual rate of 8% for two consecutive years. It is a normal trend that the development of cultural industry will prosper following the improvement of people's living standards. In addition to the film and TV drama business, the Group further expands its business blueprint by entering into a memorandum of understanding in relation to a proposed acquisition of a concert related business. Looking into the future, the Group will continue to actively identify suitable financing tools and investment opportunities, with an aim to creating greater investment returns for the shareholders and taking a further step toward the leading position in domestic cultural industry.

Biographies of Directors

EXECUTIVE DIRECTORS

Mr. ZHONG Naixiong ("Mr. Zhong"), aged 53, has been an Executive Director since 11 November 2016. He holds a master degree in Management and a doctorate degree in Industrial Economics from Jinan University in 2005 and 2008 respectively.

From 2002 to the present, Mr. Zhong has respectively founded Guangdong Puxun Industry Investment Limited and Foshan City Xingpu Investment Company Limited, acted as the chief executive officer, and has been responsible for stipulating the long-term strategic goals of the two companies. Mr. Zhong also acts as the honorable chairman of the board of Nanhai Nengxing (Holdings) Group Co., Limited to establish the group's operation plan and significant development paths. Mr Zhong is currently the vice-chairman of Guangdong Basketball Association, the executive committee of Asian Dragon Boat Federation and the vice-chairman of Hong Kong Eastern Sports Club.

Mr. Zhong is the Chairman of the board of directors and an authorized representative of the Company.

Mr. KONG Dalu ("Mr. Kong"), aged 44, has been an Executive Director since 7 June 2014. He has approximately 20 years' working experience and extensive knowledge in the field of banking, corporate finance and investment in Hong Kong and Mainland China. Mr. Kong obtained a bachelor degree in Economics (major in International Finance) at Wuhan University in the PRC in 1994.

Mr. Kong was a foreign exchange manager and foreign exchange trader in the international business department in the headquarter of Hua Xia Bank Co., Limited from 1994 to 1997. From 1997 to 2007, Mr. Kong also served at senior management level respectively at China Minsheng Bank Corp., Limited and Bank of Communications Co., Limited. Mr. Kong has acted as a director of Xince (Hong Kong) Investment Development Co. Limited, being an equity investment company incorporated in Hong Kong, since 2007. During the period from 2008 to 2011, Mr. Kong also acted as a director of Haitong Securities Company Limited (Shanghai Stock Code: 600837), being a company listed on the Shanghai Stock Exchange.

Ms. YAO Qinyi ("Ms. Yao"), aged 35, has been an Executive Director since 24 November 2016. She holds a bachelor degree in the department of Electronic Information Engineering from Xi'an Shiyou University in 2004.

She joined Mei Ah Entertainment Group Limited in 2008, and acted as the deputy general manager of Meiya Huatianxia Film Distribution Company Limited, the deputy general manager of Mei Ah Film & TV Culture Limited and the deputy general manager of Mei Ah Theatre Management Limited from 2009 to 2015. Since 2016 to the present, she has been the legal representative, director and general manager of Stellar Mega Films Company Limited; the legal representative, executive director and general manager of Beijing Xingmei Entertainment Distribution Company Limited; and the legal representative of Beijing Xingmei Culture Agency Company Limited.

Ms. Yao is an authorized representative of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. RAO Yong ("Mr. Rao"), aged 58, has been an Independent Non-executive Director since 20 January 2017. He graduated from Guangxi University of Finance and Economics*(廣西財經學院), with a diploma of Business Finance in June 1980. He also obtained a master degree of Economic Management from Party School of Guangdong Province*(廣東省黨校). Mr. Rao is a certified public accountant and an auditor in the PRC.

Mr. Rao worked as a fiscal commissioner at Guangxi Wuzhou Finance Bureau* (廣西梧州市財政局) from June 1980 to May 1984. During the period from June 1984 to December 1990, he served as a section chief at Guangxi Wuzhou Auditing Bureau* (廣西梧州市審計局). From December 1990 to September 1997, he was a director* (處長) of the division at Shenzhen Auditing Bureau* (深圳市梧州市審計局). During the period from September 1993 to September 1997, he held a concurrent post as the head of Shenzhen Auditing Firm*(深圳審核事務所所長). He joined Shenzhen Pengcheng Accounting Firm* (深圳鵬城會計師事務所) as the general manager and the partner in September 1997 and left in August 2012. From August 2012 to present, Mr. Rao worked as the managing partner and the head of Guangdong office of Ruihua Certified Public Accountants* (瑞華會計師事務所). He served as a president of Shenzhen Institute of Certified Public Accountants*（深圳市註冊會計師協會會長）from December 2005 to September 2010 and the vice president of Guangdong Institute of Certified Public Accountants*（廣東省註冊會計師協會副會長）during November 2009 to May 2014, respectively. Mr. Rao was appointed as a member of the Fifth People's Congress of Shenzhen City*（深圳市第五屆人大代表）in May 2010 and a member of the Sixth People's Congress of Shenzhen City*（深圳市第六屆人大代表）and a member of the project budget committee of People's Congress Standing Committee of Shenzhen City*（深圳市人大常務委員會計劃預算委員會委員）in May 2010, respectively.

Mr. Rao is an independent non-executive director, the chairman of audit committee and member of remuneration committee and nomination committee of Kaisa Group Holdings Ltd. (Stock Code: 1638), a company listed on the main board of The Stock Exchange of Hong Kong Limited.

Mr. Rao is the chairman of both the Audit Committee and the Remuneration Committee and a member of the Nomination Committee of the Company.

Mr. LIU Xianbo ("Mr. Liu"), aged 53, has been an Independent Non-executive Director since 27 August 2013. He holds a law degree from Jiangxi University and a graduate of Southwest University of Political Science & Law in civil and commercial law in the PRC. Mr. Liu has been practicing law in the PRC for more than 20 years, specializing in finance, real estate, economics, contracts, civil dispute, liquidation and bankruptcy, criminal defence. He currently works at China Commercial Law Co. in the PRC.

Mr. Liu is the chairman of the Nomination Committee and a member of both the Audit Committee and the Remuneration Committee of the Company.

** For identification purposes only*

Mr. WU Chien-Chiang ("Mr. Wu"), aged 61, has been an Independent Non-executive Director since 11 September 2013. He has experience of operating media and entertainment business in Taiwan for more than 30 years. He holds offices and positions in the following companies: (i) a director and the general manager of Era Communications Co., Limited; (ii) the chairman and the general manager of Satellite Entertainment Communication Co., Limited; (iii) the chairman and the general manager of Goldsun Communications Co., Limited; (iv) the general manager of Media-Chain International Marketing Co., Limited; (v) the chairman of Era Integrated Marketing Co., Limited; and (vi) the publisher of Trend Media & Publication Limited.

Mr. Wu is a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company.

SENIOR MANAGEMENT

The senior management of the Group comprises the executive Directors who held office during the year ended 31 December 2016.

Corporate Governance Report

CORPORATE GOVERNANCE

The board (the "Board") of directors of the Company (the "Directors") and the management are committed to uphold a high standard of corporate governance to safeguard the interests of shareholders of the Company and the Company as a whole.

The Company has adopted the code provision set out in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

During the financial year ended 31 December 2016, the Company was in compliance with the code provisions set out in the CG Code except the following deviations:

Code provision A.2.1 of the CG Code, details of which are set out in the section headed "Chairman and Chief Executive Officer" below in this report.

Code provision E.1.2 of the CG Code, details of which are set out in the section headed "Communication with Shareholders".

The Board will continue to monitor and review the Company's corporate governance practices to ensure compliance with the CG Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code for Securities Transactions") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. Confirmations have been sought from the Directors that they have complied with the required standards set out in the Model Code for Securities Transactions throughout the period from 1 January 2016 or their respective dates of appointment as Directors to 31 December 2016. The Board has also adopted the Model Code for Securities Transactions as guidelines for relevant employees in respect of their dealings in the securities of the Company.

THE BOARD

Role of Directors

The Board is accountable to the shareholders for leading the Company in a responsible and effective manner. Every Director is charged to act in the best interest of the Company and contribute to the Company with their expertise and knowledge. The Board decides on overall strategies and monitors the Group's performance on behalf of the shareholders of the Company.

Composition

As at the date of this report, the Board comprises the following Directors:

Executive Directors
Mr. ZHONG Naixiong
Mr. KONG Dalu
Ms. YAO Qinyi

Independent Non-Executive Directors
Mr. RAO Yong
Mr. LIU Xianbo
Mr. WU Chien-Chiang

The diversified expertise and experience of the independent non-executive Directors contribute significantly in advising management on strategy and policy development. The independent non-executive Directors also serve to ensure that a high standard in financial and other mandatory reporting is maintained and to provide adequate checks and balances for safeguarding the interests of the shareholders and the Company as a whole. Having considered the functions of independent non-executive Directors, particularly their role in checks and balances, it is considered that there is a reasonable balance between the executive and non-executive Directors on the Board.

The Directors have no financial, business, family or other material/relevant relationships with each other.

Independent Non-executive Directors

As at the date of this report, Mr. RAO Yong, one of the independent non-executive Directors has appropriate accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules. The Board has received from each independent non-executive Director, a written annual confirmation of their independence and is satisfied with their independence in accordance with the Listing Rules. The Company considers that all independent non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent.

Each of the independent non-executive Directors was appointed for a specific terms of either one or two years.

Appointment and Re-election of Directors

In accordance with the CG Code and the Bye-laws, all Directors (including independent non-executive Directors) are subject to retirement by rotation once every three years. Composition of the Board will be reviewed regularly to ensure that it covers a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. The Directors' profile is set out on pages 9 to 11.

During the year and up to the date of this report, Mr. ZHONG Naixiong, Ms. YAO Qinyi and Mr. RAO Yong were appointed as Directors. The appointment of the above new directors is a matter for consideration and decision by the full Board. Only the most suitable candidates who are experienced and competent and able to fulfill the fiduciary duties and duties of skill, care and diligence are considered. During the year, the Board as a whole (with recommendations from the Nomination Committee of the Company) is responsible for approving the appointment of its new members and for recommending appropriate person for election or re-election pursuant to the Bye-Laws of the Company for shareholders' approval at the annual general meeting.

Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code provides that the roles and responsibilities of chairman and chief executive officer should be separated.

The chief executive officer of the Company has been vacant from 23 October 2013. Until the appointment of new chief executive officer, any two of the Executive Directors continue to oversee the day-to-day management of the business and operations of the Group and are responsible for effective implementation of the overall strategies and initiatives adopted by the Board as well as the daily operation of the Group.

The Chairman is responsible for ensuring that the Board is functioning properly, with good corporate governance practices and procedures. He also steers the Board and the Company towards corporate goals.

The Chairman seeks to ensure that all Directors are properly briefed on issues brought up at Board meetings and receive adequate and reliable information in relation to matters discussed at Board meetings and also other affairs of the Group on a timely basis.

Directors' Duties

The Directors are continually updated with the regulatory requirements, business activities and development of the Company to facilitate the discharge of their responsibilities. Through regular Board meetings, all Directors are kept abreast of the conduct, business activities and development of the Company.

Corporate Governance Function

The Board is also responsible for performing the corporate governance duties as required under the CG Code. The roles and functions of the Board in respect of corporate governance function are set out in code provision D.1.3 of the CG Code.

The Board had considered the following corporate governance matters for the year ended 31 December 2016:

— Reviewed the policies and procedures adopted by the Company.

— Reviewed the compliance with the CG Code and disclosure of this corporate governance report.

Board Delegation

The Board is responsible for setting overall corporate strategies; evaluation of the performance of the Group and the management; and approval of matters that are of a material or substantial nature. Senior management members are responsible for effective implementation of the Board's decisions and the day-to-day operations of the Group.

Board Process

During the year ended 31 December 2016, the Board has scheduled meetings at regular interval and additional board meetings were held as and when necessary. The Directors participated in person or through electronic means of communication. The attendance of each Director at board meetings and general meetings during the year are set out as follows:

Name of Directors	No. of Board meetings attended/No. of Board meetings eligible to attend	No. of general meetings attended/No. of general meetings eligible to attend
Executive Directors		
Mr. ZHONG Naixiong *(Chairman)* *(appointed on 11 November 2016)*	1/1	N/A
Mr. KONG Dalu	4/4	0/4
Ms. YAO Qinyi *(appointed on 24 November 2016)*	1/1	N/A
Mr. HAO Bin *(ex-Chairman)* *(resigned on 4 July 2016)*	2/2	2/2
Mr. WANG Fei *(ex-Chairman)* *(appointed as director on 11 January 2016, as Chairman on 4 July 2016 and resigned on 11 November 2016)*	4/4	0/4
Mr. CHAN Chi To, Antony *(resigned on 24 November 2016)*	4/4	4/4
Mr. JIANG Feng *(ex-President)* *(appointed on 29 April 2016 and resigned on 11 November 2016)*	4/4	0/4
Mr. WANG Hai Yun *(retired on 3 June 2016)*	0/1	0/1
Independent Non-Executive Directors		
Mr. LIU Xianbo	4/4	0/4
Mr. WU Chien-Chiang	4/4	0/4
Mr. DU Jiang *(resigned on 20 January 2017)*	4/4	0/4
Mr. RAO Yong *(appointed on 20 January 2017)*	N/A	N/A

Directors are provided with relevant information to make informed decisions. The Board and each Director have separate and independent access to the Company's senior management for information and making enquiries if necessary. A Director of the Company who considers it necessary to seek independent professional advice in order to perform his/her duties as a Director of the Company may convene, or request the Company Secretary of the Company to convene, a meeting of the Board to approve the consultation of independent legal or other professional advisor for advice. For regular Board meetings, an agenda and accompanying board papers of the meeting are sent in full to all Directors well in advance.

Every Director is entitled to have access to the advice and services of the Company Secretary with a view to ensure that the Board procedures, and all applicable rules and regulations, are complied with. All minutes are kept by the designated secretary and are open for inspections by any Director during normal office hours by giving reasonably advance notice. Minutes of Board meetings and Board committees meetings record in sufficient details the matters considered in the meetings and decisions reached. Draft and final versions of minutes of Board meetings have been sent to all Directors for their comments and record respectively within a reasonable time after the relevant meeting was held.

If a substantial shareholder or a Director has a conflict of interest in a matter before the Board, the matter will be dealt with in accordance with applicable rules and regulations and, if appropriate, an independent board committee will be set up to deal with the matter.

BOARD COMMITTEES

The Board has established the following committees with defined terms of reference, which are of no less exact terms than those set out in the CG Code.

Remuneration Committee

As at the date of this report, the Chairman of the Remuneration Committee is Mr. RAO Yong and other members are Mr. LIU Xianbo and Mr. WU Chien-Chiang, all are independent non-executive Directors. The primary function of the Remuneration Committee is to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management. The Company's emolument policy is to ensure that the remuneration offered to employees including executive Directors and senior management is based on the skills, knowledge, responsibilities and involvement in the Company's affairs. The remuneration packages are also determined by reference to the Company's performance and profitability, remuneration level in the industry and the prevailing market conditions. The emolument policy for non-executive Directors, mainly comprising directors' fees, is subject to annual assessment with reference to the market standard. Individual Director and senior management would not be involved in deciding their own remuneration. The specific written terms of reference which follows closely the requirements of the code provisions of the CG Code have been adopted by the Board and are available on the Company's website, www.smiculture2366.com.

During the year ended 31 December 2016, the Remuneration Committee held two meetings, with attendance record as follows:

Name of Members	No. of meetings attended/No. of meetings eligible to attend
Mr. RAO Yong *(Chairman)* *(appointed on 20 January 2017)*	N/A
Mr. LIU Xianbo	2/2
Mr. WU Chien-Chiang	2/2
Mr. DU Jiang *(resigned on 20 January 2017)*	2/2

During the year ended 31 December 2016, the Remuneration Committee reviewed matters relating to remuneration packages of executive directors and senior management and new candidates as well as their service contracts (if any), remuneration of non-executives and made recommendation to the Board for approval. The model set out in code provision B.1.2(c)(ii) has been adopted by the Remuneration Committee.

The remuneration of the senior management (including former and existing executive Directors) fell within the following band:

	Number of Senior Management
Nil-HK$1,000,000	10
HK$1,000,001-HK$2,000,000	2

Audit Committee

As at the date of this report, the Chairman of the Audit Committee is Mr. RAO Yong and other members are Mr. LIU Xianbo and Mr. WU Chien-Chiang all are independent non-executive Directors. The Audit Committee is to oversee the Group's financial reporting system and internal control procedures, and to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with the applicable standard. Other duties of the Audit Committee are set out in its specific written terms of reference which deal clearly with their authority and duties and are available on the Company's website, www.smiculture2366.com.

During the year ended 31 December 2016, the Audit Committee held two meetings with attendance record as follows:

Name of Members	No. of meetings attended/No. of meetings eligible to attend
Mr. LIU Xianbo	2/2
Mr. WU Chien-Chiang	2/2
Mr. RAO Yong *(Chairman)* *(appointed on 20 January 2017)*	N/A
Mr. DU Jiang *(resigned on 20 January 2017)*	2/2

At the meetings, the Audit Committee has reviewed the audited financial statements for the financial year ended 31 December 2015 with senior management and the Company's external auditors and the interim report for the six months ended 30 June 2016. The Audit Committee has also reviewed the Group's accounting policies and practices, the Listing Rules and statutory compliance, risk management, internal controls and financial reporting matters. During the year, the Audit Committee met representatives of the auditors twice to discuss matters relating to fees and audit/review findings, etc.

Nomination Committee

As at the date of this report, the Chairman of the Nomination Committee is Mr. LIU Xianbo and other members are Mr. RAO Yong and Mr. WU Chien-Chiang, all being the independent non-executive Directors. The Nomination Committee is to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy. Other duties of the Nomination Committee are set out in its specific written terms of reference which deal clearly with their authority and duties and are available on the Company's website, www.smiculture2366.com.

During the year, Mr. WANG Fei, Mr. JIANG Feng (both resigned on 11 November 2016), Mr. ZHONG Naixiong, Ms. YAO Qinyi and after the year end, Mr. RAO Yong respectively were appointed as directors of the Company. In considering the above new appointment of directors, the Nomination Committee assessed the candidates on criteria such as integrity, independent mindedness, experience, skill and ability to commit time and effort to carry out their duties and responsibilities effectively and independent factors under the Listing Rules, etc. and made recommendation to the Board for approval. The Nomination Committee reviewed the board diversity policy.

As at the date of this report, the Nomination Committee also nominated and the Board recommended (i) Mr. LIU Xianbo, being the longest serving Director, will retire by rotation at the annual general meeting, and being eligible, will offer himself for re-election by shareholders of the Company at the annual general meeting; and (ii) Mr. ZHONG Naixiong, Ms. YAO Qinyi and Mr. RAO Yong, who were appointed by the Board during the year and up to the date of this report, will retire at the forthcoming annual general meeting and being eligible, will offer themselves for re-election at the annual general meeting.

During the year ended 31 December 2016, the Nomination Committee held two meetings with attendance record as follows:

Name of Members	**No. of meetings attended/No. of meetings eligible to attend**
Mr. LIU Xianbo *(Chairman)*	2/2
Mr. WU Chien-Chiang	2/2
Mr. RAO Yong *(appointed on 20 January 2017)*	N/A
Mr. DU Jiang *(resigned on 20 January 2017)*	2/2

Board Diversity Policy

The Company has formulated the board diversity policy in August 2013 aiming at setting out the approach on diversity of the Board of the Company.

The Board recognizes the importance of having a diverse Board in enhancing the board effectiveness and corporate governance. A diverse Board will include and make good use of differences in the skills, industry knowledge and experience, education, background and other qualities, etc. of Directors and does not discriminate on the ground of race, age, gender or religious belief. These differences will be taken into account in determining the optimum composition of the Board and when possible should be balanced appropriately.

The Nomination Committee has responsibility for identifying and nominating for approval by the Board, candidates for appointment to the Board. It takes responsibility in assessing the appropriate mix of experience, expertise, skills and diversity required on the Board and assessing the extent to which the required skills are represented on the Board and reviewing effectiveness of the Board.

The Nomination Committee is also responsible for reviewing and reporting to the Board in relation to Board diversity.

Board appointments will be based on merit and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Selection of candidates to join the Board will be, in part, dependent on the pool of candidates with the necessary knowledge, experience, skills, educational background and other qualities. The final decision will be based on merit and contribution the chosen candidate will bring to the Board.

The Board considers that Board diversity, including gender diversity, is a vital asset to the business.

At present, the Nomination Committee has not set any measurable objectives to implement the board diversity policy. However, it will consider and review the board diversity policy and setting of any measurable objectives from time to time.

DIRECTORS' TRAINING

According to the code provision A.6.5 of the CG Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

The Directors who held office during the year ended 31 December 2016 have participated in continuous professional development and provided a record of training they received for the year ended 31 December 2016 to the Company. The management provided induction materials to the Directors appointed during the year.

The individual training record of each current Director who held office during the year ended 31 December 2016 is set out below:

Name of Directors	**Attending or participating in seminars/ conference/ workshops relevant to rules and regulations and the Group's business/ directors' duties**	**Reading materials relating to rules and regulations and discharge of directors' duties and responsibilities**
Mr. ZHONG Naixiong *(appointed on 11 November 2016)*	✓	✓
Mr. KONG Dalu		✓
Ms. YAO Qinyi *(appointed on 24 November 2016)*	✓	✓
Mr. HAO Bin *(resigned on 4 July 2016)*	✓	✓
Mr. WANG Fei *(appointed on 11 January 2016 and resigned on 11 November 2016)*		✓
Mr. CHAN Chi To, Antony *(resigned on 24 November 2016)*		✓
Mr. JIANG Feng *(appointed on 29 April 2016 and resigned on 11 November 2016)*		✓
Mr. WANG Hai Yun *(retired on 3 June 2016)*		✓
Mr. RAO Yong *(appointed on 20 January 2017)*	N/A	N/A
Mr. LIU Xianbo		✓
Mr. WU Chien-Chiang		✓
Mr. DU Jiang *(resigned on 20 January 2017)*		✓

COMPANY SECRETARY

During the year, Ms. MUI Ngar May ("Ms. Mui") was the Company Secretary. Ms. Mui is not an employee of the Company and is from an external company secretarial services provider which has been engaged to provide company secretarial services to the Company.

According to the requirements of Rule 3.29 of the Listing Rules, Ms. Mui has confirmed to the Company that she has taken no less than 15 hours of relevant professional training for the year ended 31 December 2016 and has obtained the practitioner's endorsement certificate for 2016/2017 issued by The Hong Kong Institute of Chartered Secretaries.

AUDITOR'S REMUNERATION

The amount of fees charged by the auditor generally depends on the scope and volume of the auditor's work. For the year ended 31 December 2016, the remuneration to the auditor of the Company charged to income statement were approximately HK$3.7 million for audit services.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE ACCOUNTS

The management provides the explanation and information to the Board to facilitate an informed assessment of the financial and other information put before the Board for approval.

The Directors acknowledge their responsibility to prepare the financial statements that give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2016 and of the Group's profits and cash flows for the year then ended. Meanwhile, the Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and that judgements and estimates made are prudent and reasonable. In preparing the financial statements for the financial year ended 31 December 2016, the accounting principles generally accepted in Hong Kong have been adopted and the requirements of the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the applicable laws were complied with.

The Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as going concern. The Board has prepared the financial statements on a going concern basis.

The reporting responsibilities of external auditors of the Company are disclosed in "Independent Auditor's Report" set out on pages 38 to 44 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for reviewing the effectiveness of the risk management and internal control systems of the Group. The scope of the review is determined and recommended by the Audit Committee and approved by the Board annually. The review covers all material controls, including financial, operational and compliance controls and risks management. Such annual review also considers the adequacy of resources, staff's qualifications and experience and training programmes and budget of the Company's accounting and financial reporting function. The internal control review function reports directly to the Chairman of the Audit Committee. Regular internal control review reports are circulated to the Audit Committee members and the Board in accordance with the approved scope.

During the year ended 31 December 2016, management has conducted regular review on the effectiveness of the risk management and internal control systems covering all material controls in area of financial and compliance controls and various functions for risks management. The Board, through the Audit Committee, has reviewed the effectiveness of the Group's risk management and internal control systems covering all material controls, including financial, operational and compliance controls and risk management for the year ended 31 December 2016. The Audit Committee is satisfied that the risk management and internal control systems maintained by the Group is sufficient to provide reasonable, but not absolute, assurance that the Group's assets are safeguarded against loss from unauthorized use or disposition, transactions are properly authorized and proper accounting records are maintained.

Risk management Framework

1. Each business unit is responsible for identifying, assessing and managing risks within its business, ensuring that appropriate internal controls for effective risk management are implemented — principal risks are identified and assessed in the yearly business planning process with action plans to manage those risks;

2. The management is responsible for overseeing the risk management and internal control activities of the Group — regular meetings with each business unit to ensure principals risk are properly managed, and new or changing risks are identified;

3. The Board is responsible for reviewing and approving the effectiveness and adequacy of the Group's risk management and internal controls — consideration of the Audit Committee's recommendation.

In addition, the Group has an internal audit team. Such risk management framework, coupled with our internal controls, ensures that the risks associated with our different business units are effectively controlled in line with the Group's risk appetite.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure the maintenance of proper accounting records, to ensure compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The management is responsible for the design, implementation and maintenance of internal controls, while the Audit Committee and the Board review the effectiveness of the Group's systems of internal controls and risk management through the assistance of the internal audit function.

The Audit Committee also had regular meetings with the external auditor and reviewed the reports by the external auditor of any control issues or findings identified in the course of their work. The Audit Committee has also requested the management to follow up the recommendations of the external auditor to remedy the control issues identified or to further improve the internal control system.

The Board formed its own view on the effectiveness of the systems based on the recommendation of the Audit Committee.

In respect of the year ended 31 December 2016, the Board considered the risk management and internal control systems of the Group effective and adequate. No significant areas of concern that may affect the financial, operational, compliance controls, and risk management of the Group have been identified. The Board also considered the resources, qualification and experience, training programs and budget of the Group's accounting, internal audit and financial reporting functions adequate. Nevertheless, the Group would take further steps to continually improve its risk management and internal control systems.

In addition, an independent professional firm has been engaged to review and assess certain internal control system of the Group for the year ended 31 December 2016 and reported the review and recommended procedures whereas no material control failure was noted.

Dissemination of Inside Information

The Company is committed to a consistent practice of timely, accurate and sufficiently detailed disclosure of material information about the Group. The Company has adopted a Policy on Disclosure of Inside Information which sets out the obligations, guidelines and procedures for handling and dissemination of inside information. With these guidelines and procedures, the Group has management controls in place to ensure that potential inside information can be promptly identified, assessed and escalated for the attention of the Board to decide about the need for disclosure.

COMMUNICATION WITH SHAREHOLDERS

Effective communication

The Company discloses relevant information to shareholders through the Company's annual report and financial statements, the interim report, as well as the annual general meeting (the "AGM"). The section under "Management Discussion and Analysis" of the annual report facilitate the shareholders' understanding of the Company's activities. The AGM allows the Directors to meet and communicate with shareholders. The Company's financial statements and each of the required disclosure of information are dispatched within the prescribed period imposed by laws and regulations.

Code provision E.1.2 of the CG Code requires the chairman of the board to invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend the AGM. In their absence, he should invite another member of the committee or failing this his duly appointed delegate, to attend. Due to other business commitments, the chairmen and members of the audit, remuneration and nomination committees of the Company could not attend the AGM held in June 2016 (the "2016 AGM"). In addition, all independent non-executive directors could not attend a special general meeting (the "SGM") held during the year under review to approve the transactions that required independent shareholders' approval as provided for in the said code provision.

The Chairman of the 2016 AGM and SGMs had explained the procedures for conducting a poll. At the 2016 AGM and SGMs, separate resolution was proposed by the chairman of the meeting in respect of each separate issue, including re-election of retiring directors at the 2016 AGM, and voted by way of poll. The Company announced the results of the poll in the manner prescribed under the Listing Rules. The Executive Directors of the Company and representatives of the external auditor Messrs. Deloitte Touche Tohmatsu, attended the 2016 AGM and have effective communication with shareholders. Besides, the Company held SGMs to consider and approve mainly about (i) grant of share options, (ii) change of company name, and (iii) issue of convertible bonds. The executive Directors attended the said general meetings to answer related questions.

To manage its relationship with investment community, the Group meets regularly with the press and financial analysts and participates frequently in other conferences and presentations.

To further promote effective communication, the corporate website is maintained to disseminate Company announcements and other relevant financial and non-financial information electronically on a timely basis.

The Company has established a shareholders' communications policy.

Shareholders' Rights

An AGM of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an AGM, shall be called a special general meeting under the Bye-Laws.

Shareholders to convene a special general meeting

Pursuant to the Bye-laws of the Company and the Companies Act, the Board shall, on the requisition of shareholders holding at the date of the deposit of the requisition not less than one-tenth of such of the paid-up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the Company, forthwith proceed duly to convene a special general meeting of the Company.

The requisition must state the purposes of the meeting, and must be signed by the requisitionists and deposited at the registered office of the Company (the "Registered Office"), which is presently situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda, and may consist of several documents in like form each signed by one or more requisitionists.

If the Board does not within twenty-one days from the date of the deposit of the requisition proceed duly to convene a meeting, the requisitionist, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date.

The procedures that shareholders can use for proposing a person for election as Director at general meeting are set out in the document entitled "Procedures for a Shareholder to Propose a Person for Election as a Director", which is currently available on the Company's website.

Putting enquiries by shareholders to the Board

Shareholders may send written enquiries to the Company for the attention of the Company Secretary at the Company's principal place of business in Hong Kong.

Procedures for putting forward proposals by shareholders at shareholders' meeting

Pursuant to the Companies Act, either any number of shareholders representing not less than one-twentieth of the total voting rights of all the shareholders having at the date of the requisition a right to vote at the meeting to which the requisition relates; or not less than one hundred shareholders, can request the Company in writing to (a) give to shareholders entitled to receive notice of the next annual general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting; and (b) circulate to shareholders entitled to have notice of any general meeting sent to them any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

The requisition signed by all the requisitionists must be deposited at the Registered Office with a sum reasonably sufficient to meet the Company's relevant expenses, not less than six weeks before the meeting in the case of a requisition requiring notice of a resolution; and not less than one week before the meeting in the case of any other requisition. Provided that if, an annual general meeting is called for a date six weeks or less after the requisition has been deposited, the requisition though not deposited within the time required shall be deemed to have been properly deposited for the purposes thereof.

The above procedures are subject to Bye-Laws and applicable laws and regulation.

Voting by way of poll

Pursuant to Rule 13.39(4) of the Listing Rules and the Bye-Laws of the Company, all votes of the shareholders at the AGM or general meetings must be taken by poll. Relevant details of the proposed resolutions, including biographies of each retiring Director standing for re-election, were included in the circular to shareholders dispatched together with the proxy forms. The Company announced the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

Constitutional Document

The Memorandum of Association and Articles of the Company have been published on the websites of the Stock Exchange and the Company.

There is no significant change in the Company's constitutional documents during the year ended 31 December 2016.

Hong Kong, 31 March 2017

Report of the Directors

The Directors submit herewith their report together with the audited financial statements for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are 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.

The particulars of the subsidiaries are set out in note 36 to the financial statements.

BUSINESS REVIEW

A fair review of the business of the Company, a discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position as well as the outlook of the Company's business are provided in the "Management Discussion and Analysis" from pages 6 to 8 of this annual report. An analysis of the Group's performance during the year using financial key performance indicators is provided in "Financial Summary" on page 116 in this annual report. Description of the principal risks and uncertainties facing the Company can be found throughout this annual report particularly in notes 4, 28 and 29 to the financial statements. Particulars of important events affecting the Company that have occurred since the end of the financial year 2016 can be found in note 35 to the financial statements. Discussion on the Group's environmental policies and performance, compliance with laws and regulations and relationship with employees, customers and suppliers are set out in other sections in this Report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to building an eco-friendly corporation that tries to reduce the impacts of its operation on the environment.

Currently, the Group implements the following paper-saving measures:

(a) employees are encouraged to use duplex printing for internal documents;

(b) facilities and procedures are in place for paper waste recycling; and

(c) the Group had strived for long to establish a paperless office by using electronic storage and communication whenever possible.

The Group took different measures to minimize environmental impact by saving electricity and encouraging recycle of office supplies and other material.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group's investments are mainly carried out by the Company's subsidiaries established in the British Virgin Islands, the People's Republic of China and Hong Kong while the Company itself is incorporated in the Cayman Islands and continued in Bermuda with its shares listed on the Main Board of The Stock Exchange of Hong Kong Limited. Our establishment and operations accordingly shall comply with relevant laws and regulations in Bermuda, the British Virgin Islands, the People's Republic of China and Hong Kong.

During the year ended 31 December 2016 and up to the date of this annual report, we have complied with all the relevant rules, laws and regulations in Bermuda, the British Virgin Islands, the People's Republic of China and Hong Kong that have a significant impact on the Group.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

As the Group principally engages in media sector, the Group has always paid great attention to and maintained a good relationship with, and has been providing quality professional and customer-oriented services for customers. Since the nature of business of the Group, no specific suppliers will be involved in the operation of business. The aforementioned customers are good working partners creating value for the Group. The Group also values the knowledge and skills of its employees, and continues to provide favourable career development training and education opportunities for its employees.

FINANCIAL STATEMENTS

The profits of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2016 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 45 to 115.

SHARE CAPITAL

Details of the movement in the share capital of the Company during the year are set out in note 24 to the financial statements.

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

There were no purchases, sales or redemption of the Company's listed securities by the Company and any of its subsidiaries during the year ended 31 December 2016.

RESULTS AND RESERVES

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 45 to 46 of the annual report. The movements in reserves are set out in the consolidated statement of changes in equity on page 48 to 49 of the annual report.

The Directors do not recommend the payment of a final dividend for the financial year ended 31 December 2016 (2015: Nil).

CHARITABLE DONATIONS

During the financial year ended 31 December 2016, no charitable donations were made by the Group (2015: Nil).

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the five financial years ended 31 December 2016 is set out on page 116 of the annual report.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 13 to the financial statements.

DIRECTORS

The Directors during the year ended 31 December 2016 and up to the date of this report were:

Executive Directors
Mr. ZHONG Naixiong *(Chairman)*
(appointed on 11 November 2016)
Mr. KONG Dalu
Ms. YAO Qinyi
(appointed on 24 November 2016)
Mr. HAO Bin *(ex-Chairman)*
(resigned on 4 July 2016)
Mr. WANG Fei *(ex-Chairman)*
(appointed as director on 11 January 2016,
as Chairman on 4 July 2016 and resigned on 11 November 2016)
Mr. CHAN Chi To, Antony
(resigned on 24 November 2016)
Mr. JIANG Feng *(ex-President)*
(appointed on 29 April 2016 and resigned on 11 November 2016)
Mr. WANG Hai Yun *(retired on 3 June 2016)*

Independent Non-Executive Directors
Mr. RAO Yong *(appointed on 20 January 2017)*
Mr. LIU Xianbo
Mr. WU Chien-Chiang
Mr. DU Jiang *(resigned on 20 January 2017)*

As at the date of this report, in accordance with Bye-Law 83(2) of the Company's Bye-Laws, Mr. ZHONG Naixiong, Ms. YAO Qinyi and Mr. RAO Yong, who were appointed by the Directors, will hold office until the forthcoming annual general meeting ("AGM"), and being eligible, offer themselves for re-election at the AGM.

As at the date of this report, in accordance with Bye-Law 84(1) of the Company's Bye-Laws, Mr. LIU Xianbo will retire by rotation at the forthcoming AGM and being eligible, offer himself for re-election at the AGM.

None of the Director proposed for re-election at the forthcoming AGM has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

The Company has received, from each of the independent non-executive directors, a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive directors are independent.

Changes of Directors' Information under Rule 13.51B(1) of the Listing Rules

Save as disclosed herein, the Company is not aware of any other change in the directors' information which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the 2016 interim report.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2016, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"), which were required (i) to be notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange and as known to the Company.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in this report, no transactions, arrangements, or contracts of significance, to which the Company or its subsidiaries, its parent company (if any) or its fellow subsidiaries (if any), was a party, and in which a Director or his connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2016.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Interests of the directors of the Company in competing businesses as at 31 December 2016 which are required to be disclosed pursuant to Rule 8.10 of the Listing Rules were as follows:

Name of directors	Name of entity the businesses in which are considered to compete or likely to compete with the businesses of the Group	Description of the businesses of the entity which are considered to compete or likely to compete with businesses of the Group	Nature of interest of the director in the entity
Ms. YAO Qinyi (Executive Director)	Stellar Mega Films Company Limited	Investment in movie production (The likely "Competing Business")	As the legal representative, director and general manager
	Beijing Xingmei Entertainment Distribution Company Limited	Investment in movie distribution (The likely "Competing Business")	As the legal representative, executive director and general manager
	Beijing Xingmei Culture Agency Company Limited	Models agency and event planning and production (The likely "Competing Business")	As the legal representative
Mr. WU Chien-Chiang (Independent Non-Executive Director)	Era Communications Co Ltd.	TV program production (The likely "Competing Business")	As General manager

The Board is of the view that the Group is capable of carrying on its business independently of the Competing Business. When making decisions on the television investment, production and distribution of the Group, the above Director, in the performance of his duties as Director, has acted and will continue to act in the best interests of the Group.

Save as disclosed above, none of the Directors of the Company has any interest in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the Group's business.

PERMITTED INDEMNITY PROVISION

The Bye-Laws of the Company provides that directors shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses which they are or any of them shall or may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices. The Company has taken out insurance against the liability and costs associated with defending any proceedings which may be brought against Directors of the Group.

SHARE OPTION SCHEME

The Company adopted a share option scheme by written resolutions of the shareholders passed on 13 June 2004 (the "old share option scheme") which would be expired on 13 June 2014. The Company terminated the old share option scheme and adopted a new share option scheme (the "new share option scheme") pursuant to an ordinary resolution passed by the shareholders at the annual general meeting of the Company held on 6 June 2014.

Pursuant to the new share option scheme the Directors of the Company may, at their discretion, invite any full time or part time employees and Directors, consultants and advisers of the Group (subject to the eligibility requirements as set out therein) to take up options which entitle them to subscribe for shares representing up to a maximum in nominal value of 30% of the issued share capital of the Company from time to time. The total number of shares available for issue under the new share option scheme and other schemes must not in aggregate exceed 10% of the issued share capital of the Company as at the date of adoption of the new share option scheme unless further shareholders' approval has been obtained. The total number of shares to be issued upon exercise of the options to be granted (including both exercised and outstanding options) in any 12 months' period up to the date of grant to a substantial shareholder or an independent non-executive Director or their associates would not exceed 0.1% of the shares in issue or an aggregate value of HK$5,000,000 unless further shareholders' approval has been obtained; and to each other eligible person would not exceed 1% of the shares in issue. The purpose of the new share option scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full time and part time), Directors, consultants and advisers of the Group and to promote the success of the business of the Group. The new share option scheme shall be valid and effective for a period of ten years from 6 June 2014 (the "Scheme Period"). The exercise price of options shall be determined by the Board and shall not be less than the highest of the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the date of grant of the options and the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of offer and the nominal value of a share of the Company. An option may be exercised at any time during a period being not more than ten years from the date of grant and expiring at the close of business on the last day of such period but subject to the provisions of early termination hereof. There is no specific minimum period under the new share option scheme for which an option must be held or the performance target which must be achieved before an option can be exercised.

As at the date of this report, a total of 56,255,768 shares (representing 6.53% of the existing issued share capital of the Company) may be issued upon exercise of all options which may be granted and yet to be exercised under the new share option scheme.

Movements in the Company's share options granted under the new share option scheme during the year are set out below :

Participants	Date of Grant	Exercise Period	Exercise Price (Note 2)	Number of Share Options Outstanding as at 1.1. 2016	Granted during the year	Exercised during the year	Lapsed/ Cancelled during the year	Outstanding as at 31.12.2016	Approximate percentage of total issued shares of the Company as at 31.12.2016
ex-Director									
Mr. JIANG Feng (Note 1)	29-4-2016	30-4-2019 to 29-4-2025	HK$0.58	—	20,000,000	—	(20,000,000)	—	—

Notes:

1. The 20,000,000 share options granted to Mr. Jiang Feng were lapsed as such grant of share options was subject to approval by independent shareholders of the Company by way of an ordinary resolution and the said ordinary resolution was not passed at the special general meeting held on 24 June 2016. Mr. JIANG Feng resigned as director on 11 November 2016.

2. The closing price of the shares of the Company immediately before the date of grant (i.e. as of 28 April 2016) was HK$0.58.

Save as disclosed above, during the year ended 31 December 2016, no options were exercised or cancelled under the new share option scheme since its adoption.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company, its parent company (if any), or any of its subsidiaries or fellow subsidiaries (if any) a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

EQUITY-LINKED AGREEMENTS

Save as disclosed in this annual report relating to "Share Option Scheme", no equity-linked agreements were entered into during the year or subsisted at the end of the year.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

The interests and short positions of those persons (other than a Director or chief executive of the Company disclosed above) in the shares and underlying shares of the Company as at 31 December 2016, which have been notified to the Company and recorded in the register required to be kept under Section 336 of the SFO or as known to the Company were as follows:

Long Position in shares and underlying shares of the Company

Name of substantial shareholders	Capacity	Number of shares interested	Number of underlying shares interested pursuant to convertible bonds (Note 4)	Approximate percentage of total issued as at 31 December 2016
SMI Investment (HK) Limited (Note 1)	Beneficial owner	555,842,184	—	64.49%
Ever Ascend Investments Limited ("Ever Ascend") (Note 2)	Beneficial owner	—	148,148,148	17.19%
Cheer Hope Holdings Limited ("Cheer Hope") (Note 3)	Beneficial owner	5,490,000	96,296,296	11.81%

Note 1: SMI Investment (HK) Limited is wholly-owned by SMI Holdings Group Limited ("SMI Holdings"). SMI Holdings is owned directly or indirectly as to approximately 60.1% by Mr. Qin Hui himself.

Note 2: Ministry of Finance of the PRC (中華人民共和國財政部) is the direct controlling shareholder (holding 67.75%) of China Huarong Asset Management Co., Ltd. China Huarong Asset management Co., Ltd. is the indirect controlling shareholder of Huarong International Financial Holdings Limited, which in turn is the indirect controlling shareholder of Ever Ascend. Huarong International Financial Holdings Limited, China Huarong Asset Management Co. Ltd. and Ministry of Finance of the PRC (中華人民共和國財政部) are deemed to have the same interest of 148,148,148 underlying shares in the Company through equity derivatives as those owned by Ever Ascend by virtue of the SFO.

Note 3: Central Huijin Investment Ltd. is the direct controlling shareholder (holding 57.31%) of China Construction Bank Corporation. China Construction Bank Corporation is the indirect controlling shareholder of Cheer Hope. Central Huijin Investment Ltd. and China Construction Bank Corporation are deemed to have the same interest of 5,490,000 shares in the Company and 96,296,296 underlying shares in the Company through equity derivatives as those owned by Cheer Hope by virtue of the SFO.

Note 4: The terms of the convertible bonds for underlying shares are set out in the announcements made by the Company on 29 July 2016, 8 August 2016 and 5 September 2016.

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

The transaction of purchase of films sets out in note 30(B) to the financial statements which is in existence or entered into during the financial year ended 31 December 2016 fall under the definition of connected transactions in accordance with Chapter 14A of the Listing Rules (Please refer to the announcement dated 20 April 2015 for details).

The transactions of loan and interest thereon set out in note 30(B) fall under Rules 14A.90 of the Listing Rules and are exempted from reporting, announcement and independent shareholders' approval requirements in the Listing Rules.

The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules (where applicable) with respect to the connected transactions and continuing connected transactions entered into by the Company for the financial year ended 31 December 2016.

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS

The aggregate turnover attributable to the Group's five largest customers accounted for approximately 95% (2015: 68%) and the largest customer accounted for approximately 46% (2015: 18%) of the Group's total turnover for the financial year ended 31 December 2016.

At no time during the year have the Directors, their close associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules.

AUDITOR

The financial statements have been audited by Deloitte Touche Tohmatsu who retire and, being eligible, offer themselves for re-appointment at the forthcoming 2017 annual general meeting.

Messrs. KPMG, who acted as auditor of the Company for the financial year of 2013, resigned on 24 November 2014 and Messrs. Deloitte Touche Tohmatsu was appointed by the Board on 8 December 2014 to fill the casual vacancy and was re-appointed as auditors of the Company by shareholders at the annual general meetings in 2015 and 2016.

On behalf of the Board of Directors
SMI Culture & Travel Group Holdings Limited

ZHONG Naixiong
Chairman

Hong Kong, 31 March 2017

Deloitte. 德勤

TO THE MEMBERS OF SMI CULTURE & TRAVEL GROUP HOLDINGS LIMITED
(FORMERLY KNOWN AS SMI CULTURE GROUP HOLDINGS LIMITED)
(incorporated in the Cayman Islands and continued in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of SMI Culture & Travel Group Holdings Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 45 to 115, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	**How our audit addressed the key audit matters**
Impairment assessment of intangible assets	
We identified the impairment assessment of intangible assets, representing the purchased license rights, as a key audit matter due to significant judgement exercised by the Group's management on the assessment of impairment. As set out in note 4 and 14 to the consolidated financial statements, in determining the impairment of purchased license rights, management assessed the recoverable amounts of the purchased license rights based on their value in use determined with reference to the valuation carried out by a professional valuer. The value in use is based on discounted cash flows taking into account key assumptions including discount rate, forecast income and gross margin of the Group's portfolio of the purchased license rights with reference to the marketability of the purchased license rights as well as the general market condition in the media industry. The Group's purchased license rights as at 31 December 2016 amounted to HK$82,372,000. During the year ended 31 December 2016, impairment loss of HK$13,713,000 was recognised in profit or loss.	Our procedures in relation to evaluating the appropriateness of impairment assessment for intangible assets included: • Understanding management's impairment assessment process, including identifying of impairment indicators of the purchased license rights, valuation model adopted, key assumptions used and involvement of professional valuer; • Assessing the competence, capabilities and objectivity of the professional valuer; • Evaluating the appropriateness of the discount rate used; • Evaluating the reasonableness of the forecast income and gross margin of the purchased license rights with reference to the available market data; • Evaluating the accuracy of the historical forecast income and gross margin by comparing with the actual performance, and verifying whether the actual licensing income is supported by relevant agreements; and • Evaluating the sufficiency and appropriateness of the relevant disclosures of impairment assessment in the consolidated financial statements.

Key audit matters	How our audit addressed the key audit matters
Provision of inventories	
We identified the provision of inventories as a key audit matter due to the management judgement required in making an assessment of the adequacy of the provision. As set out in notes 4 and 15 to the consolidated financial statements, the estimated selling prices are determined with reference to a valuation performed by a professional valuer on an individual basis for each script, synopsis and editing/publishing rights, taking into account the market information on estimated selling prices adjusted for factors such as authorship, length of the works, historical trends on marketability of the works. As at 31 December 2016, the carrying amount of inventories was HK$226,849,000 (net of provision of HK$266,476,000). During the year ended 31 December 2016, an impairment loss of HK$4,155,000 was recognised in profit or loss.	Our procedures in relation to evaluating the appropriateness of the provision of inventories included: • Obtaining an understanding of management's provision assessment process, including estimation of the selling prices, adjusting factors adopted and involvement of professional valuer; • Assessing the competence, capabilities and objectivity of the professional valuer; • Evaluating the reasonableness of management's estimated selling prices and adjusting factors based on the available market data; and • Evaluating the accuracy of the historical estimated selling prices by comparing with the actual sales, and verifying whether the actual selling price is supported by relevant agreements.
Impairment of trade receivables	
We identified the impairment of trade receivables as a key audit matter due to management judgement required in making an assessment of the potential allowance of trade receivables. As set out in notes 4 and 17 to the consolidated financial statements, in determining the impairment of trade receivables, the recoverability of the trade receivables is assessed by management taking into account the credit history of the customers including default or delay in payments, settlement records during the year, subsequent settlement and aging analysis of the trade receivables. The carrying amount of the trade receivables was approximately HK$352,818,000 as at 31 December 2016. There was no impairment loss recognised for year ended 31 December 2016.	Our procedures in relation to the impairment of trade receivables included: • Obtaining an understanding of how management performs the impairment assessment on trade receivables; • Understanding and testing the key controls relating to the preparation of the aging analysis of trade receivables; • Testing the accuracy of the aging analysis of trade receivables, by tracing a sample basis, to relevant documents; • Identifying any impairment indicators of trade receivables by reference to the settlement records during the year and the post year end subsequent settlement; • Tracing a sample of the settlement during the year to bank receipts; and • Tracing a sample of the post year end subsequent settlements to bank receipts.

Key audit matters	How our audit addressed the key audit matters
Valuation of convertible notes and embedded derivatives	
We identified the valuation of convertible notes and embedded derivatives as a key audit matter due to the complexity and significant management judgement involved in estimating the fair values. As set out in notes 4 and 22 to the consolidated financial statements, in determining the fair value of the convertible notes and embedded derivatives, management engaged a professional valuer to perform the valuations. The fair values of the convertible notes are estimated based on the discounted cash flow and the key input used in the estimation is the discount rate. The fair values of embedded derivatives are estimated based on binomial option pricing model and the key inputs of the estimation are the stock price, volatility and risk-free interest rate. The carrying amounts of the convertible notes and embedded derivatives were approximately HK$159,573,000 and HK$55,685,000 respectively as at 31 December 2016.	Our procedures in relation to evaluating the appropriateness of valuation of convertible notes and embedded derivatives included: • Assessing the competence, capabilities and objectivity of the valuer; • Assessing the appropriateness of the valuation methodologies, and assessing the reasonableness on the key inputs used including the discount rate, stock price, volatility and risk-free interest rate; and • Evaluating the potential impact in relation to the reasonably possible change in the stock prices of the Company's shares determined by the valuer.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Lau Ngai Kee, Ricky.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
31 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Continuing operations			
Revenue	5	548,429	191,390
Cost of sales		(340,313)	(61,395)
Gross profit		208,116	129,995
Other income		36,174	57
Other expenses		(11,312)	(1,785)
Impairment losses recognised in respect of:			
— Intangible assets	14	(13,713)	(23,729)
— Other receivable		—	(8,569)
— Goodwill	33	—	(2,943)
Fair value change of the embedded derivatives	22	(61,696)	—
Provision of inventories	15	(4,155)	(11,359)
Administrative expenses		(31,122)	(26,771)
Finance costs	6	(47,931)	(5,377)
Profit before taxation		74,361	49,519
Taxation	7	(47,920)	(36,978)
Profit for the year from continuing operations	8	26,441	12,541
Discontinued operations			
Profit for the year from discontinued operations	32	—	6,061
Profit for the year		26,441	18,602
Other comprehensive (expenses) income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation		(1,391)	187
Realisation of exchange differences upon disposal of subsidiaries		—	(1,003)
Total comprehensive income for the year		25,050	17,786

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Profit for the year attributable to owners of the Company			
— from continuing operations		**22,961**	12,766
— from discontinued operations		**—**	6,710
		22,961	19,476
Profit (loss) for the year attributable to non-controlling interests			
— from continuing operations		**3,480**	(225)
— from discontinued operations		**—**	(649)
		3,480	(874)
		26,441	18,602
Total comprehensive income (expenses) attributable to:			
— Owners of the Company		**21,570**	18,660
— Non-controlling interests		**3,480**	(874)
		25,050	17,786
Earnings per share (HK$)			
From continuing and discontinued operations			
— Basic	12	**0.03**	0.03
— Diluted		**N/A**	N/A
From continuing operations			
— Basic		**0.03**	0.02
— Diluted		**N/A**	N/A

Consolidated Statement of Financial Position

As at 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment	13	**390**	265
Intangible assets	14	**82,372**	114,633
		82,762	114,898
Current assets			
Inventories	15	**226,849**	252,238
Film rights investments	16	**397,643**	100,619
Trade and other receivables	17	**444,368**	238,741
Cash and cash equivalents	18	**408,794**	21,160
		1,477,654	612,758
Current liabilities			
Trade and other payables	19	**68,337**	90,646
Tax payable		**141,142**	93,222
Loan from a shareholder	20	**—**	50,000
Loan notes	21	**445,531**	—
Convertible notes	22	**159,573**	—
Embedded derivatives	22	**55,685**	—
Other borrowing	23	**125,576**	—
		995,844	233,868
Net current assets		**481,810**	378,890
		564,572	493,788
Capital and reserves			
Share capital	24	**8,620**	8,101
Share premium and other reserves		**556,768**	491,769
Equity attributable to owners of the Company		**565,388**	499,870
Non-controlling interests		**(816)**	(6,082)
		564,572	493,788

The consolidated financial statements on pages 45 to 115 were approved and authorised for issue by the board of directors on 31 March 2017 and are signed on its behalf by:

ZHONG Naixiong
DIRECTOR

KONG Dalu
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000 (Note a)	Capital reserve HK$'000 (Note b)	Exchange reserve HK$'000	Warrant reserve HK$'000 (Note c)	Other reserve HK$'000 (Note d)	(Accumulated losses) retained profit HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
As at 1 January 2015	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 (note 24)	(433,169)	(1,092,929)	—	—	—	—	—	1,526,098	—	—	—
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	(189)	(189)
Placement of shares (note 24)	2,475	195,075	—	—	—	—	—	—	197,550	—	197,550
Transaction cost attributable to placement of shares	—	(4,658)	—	—	—	—	—	—	(4,658)	—	(4,658)
Disposal of subsidiaries (note 31)	—	—	—	—	—	—	—	—	—	(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
Profit for the year	—	—	—	—	—	—	—	22,961	22,961	3,480	26,441
Other comprehensive expenses for the year	—	—	—	—	(1,391)	—	—	—	(1,391)	—	(1,391)
Total comprehensive (expenses) income for the year	—	—	—	—	(1,391)	—	—	22,961	21,570	3,480	25,050
Acquisition of additional interests in a subsidiary (Note d)	—	—	—	—	—	—	(395)	—	(395)	395	—
Disposal of subsidiaries (note 31)	—	—	—	—	—	—	—	—	—	1,391	1,391
Issue of shares upon conversion of convertible notes (note 22)	519	43,824	—	—	—	—	—	—	44,343	—	44,343
As at 31 December 2016	8,620	234,241	95	11,961	(1,514)	—	(395)	312,380	565,388	(816)	564,572

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 rationalise the Group structure in the preparation for the listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited, 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 accounting to HK$5,392,000 was transferred to accumulated losses.

(d) During the year ended 31 December 2016, the Group acquired additional 30% equity interests in a subsidiary at a cash consideration of HK$3. The Group's effective interests in this subsidiary increased to 100% after the acquisition. An amount of HK$395,000 (being the non-controlling interests proportionate share of the carrying amount of the subsidiary's net liabilities) has been transferred from non-controlling interests to other reserve.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
OPERATING ACTIVITIES			
Profit before taxation		**74,361**	55,580
Adjustments for:			
Depreciation of property, plant and equipment		**257**	245
Amortisation of intangible assets		**14,293**	17,401
Interest income		**(1,641)**	(13)
Gain on disposal of subsidiaries	31	**(32,858)**	(7,504)
Finance costs		**47,931**	5,377
Provision for inventories		**4,155**	11,359
Fair value change of the embedded derivatives		**61,696**	—
Impairment loss recognised in respect of:			
— goodwill		**—**	2,943
— intangible assets		**13,713**	23,729
— other receivables		**—**	8,569
Operating cash flows before movements in working capital		**181,907**	117,686
Decrease in inventories		**21,234**	10,109
Increase in film rights investments		**(297,024)**	(57,376)
Increase in trade and other receivables		**(209,471)**	(217,841)
(Decrease) increase in trade and other payables		**(5,660)**	7,644
Cash used in operations		**(309,014)**	(139,778)
Income tax paid		**—**	(195)
NET CASH USED IN OPERATING ACTIVITIES		**(309,014)**	(139,973)
INVESTING ACTIVITIES			
Disposal of subsidiaries	31	**(56)**	8,513
Proceeds from disposal of property, plant and equipment		**—**	603
Acquisition of subsidiaries	33	**—**	(513)
Interest received		**1,641**	13
Purchases of property, plant and equipment		**(382)**	(105)
Acquisition of intangible assets		**(154)**	—
NET CASH FROM INVESTING ACTIVITIES		**1,049**	8,511

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
FINANCING ACTIVITIES		
New other borrowings raised	**160,000**	—
Repayment of other borrowings	**(34,424)**	(42,865)
Net proceeds from issue of loan notes	**758,954**	—
Redemption of loan notes	**(314,431)**	—
Repayment of loan from a shareholder	**(50,000)**	—
Net proceeds from issue of convertible notes and embedded derivatives	**198,420**	—
Interest paid	**(21,529)**	(5,377)
Proceeds from share placing	**—**	197,550
Expenses on share placing	**—**	(4,658)
NET CASH FROM FINANCING ACTIVITIES	**696,990**	144,650
NET INCREASE IN CASH AND CASH EQUIVALENTS	**389,025**	13,188
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY	**21,160**	8,789
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(1,391)**	(817)
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER represented by cash and cash equivalents	**408,794**	21,160

1. GENERAL

SMI Culture & Travel Group Holdings Limited (the "Company") is incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited. The Company changes the domicile to Bermuda in 2015. The Company's immediate holding company is SMI Holdings Group Limited ("SMI Holdings"), a company incorporated in Bermuda as an exempted company with limited liability. In the opinion of the directors of the Company, the ultimate controlling party of the Company is Mr. QIN Hui ("Mr. Qin"). 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 ("HK$"), which is also the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

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 current year:

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 HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception
Amendments to HKFRSs	Annual improvements to HKFRSs 2012 — 2014 cycle
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations

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.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

New and amendments to HKFRSs issued but not yet effective

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

HKFRS 9	Financial instrument[1]
HKFRS 15	Revenue from contracts with customers and the related amendments[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[3]
Amendments to HKAS 7	Disclosure initiative[4]
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses[4]
Amendments to HKFRSs	Annual improvements to HKFRSs 2014-2016 cycle[5]

1 Effective for annual periods beginning on or after 1 January 2018.

2 Effective for annual periods beginning on or after 1 January 2019.

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

4 Effective for annual periods beginning on or after 1 January 2017.

5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate.

HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9:

- All recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

HKFRS 9 Financial Instruments *(continued)*

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2016, the change in fair value of the Group's embedded derivatives that is attributable to changes in credit risk could be presented in other comprehensive income. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 9 until the Group performs a detailed review.

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

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

HKFRS 15 Revenue from contracts with customers *(continued)*

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.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have an impact on the amounts reported as the timing of revenue recognition may be affected/and the amounts of revenue recognised are subject to variable consideration constraints, and more disclosures relating to revenue is required. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review. In addition, the application of HKFRS 15 in the future may result in more disclosures in the consolidated financial statements.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

HKFRS 16 Leases *(continued)*

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

The application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors complete a detailed 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 ("Listing Rules") and the Hong Kong Companies Ordinance ("CO").

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 "Share-based payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of assets".

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

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 item 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.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity including reserves and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted after re-attribution of the relevant equity component, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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 amounts of the identifiable assets acquired and the liabilities assumed as at the acquisition date. If, after re-assessment, the net 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 relevant subsidiary'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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A CGU (or group of CGUs) 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 (or group of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill 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 (or group of CGUs).

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.

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.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

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.

Licensing income from purchased license rights

Purchased license rights related to the broadcasting rights of TV series, documentaries and similar products. Revenue from the licensing of broadcasting rights is recognised when the following criteria are met: (i) an agreement has been signed with a customer, (ii) master tapes have been delivered and (iii) it is probable that future economic benefits will flow to the Group.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

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 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.

Promotional service income

Promotional service income is recognised when services are rendered.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and any accumulated impairment losses. For purchased license rights, in periods where revenue is generated from a purchased license right, amortisation is recognised at rates 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 their estimated useful lives. 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 subsequent 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 any accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets *(continued)*

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. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. 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 recognised immediately in profit or loss.

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 the estimated costs necessary to make the sale.

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

The cost of inventories are 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 investments

Film rights investments represent films invested by the Group.

Film rights investments are 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 ration 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.

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 arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group's interests.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Retirement benefit costs

Payments to state-managed retirement benefit scheme in the People's Republic of China ("PRC") and the Mandatory Provident Funds Schemes, 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 bases 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 deferred tax 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 and interests 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

Deferred tax (continued)

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

Deferred tax 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.

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 assets less their residual values 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 and is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

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 is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's 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 recognised 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 the 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.

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.

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 other than those financial liabilities classified as at fair value through profit or loss (the "FVTPL"), of which the interest expense is included in net gains or losses.

Interest expense is recognised on an effective interest basis.

Financial liabilities at amortised cost

Financial liabilities including loan from a shareholder, loan notes and trade and other payables are subsequently measured at amortised cost, using the effective interest method.

Convertible notes contain debt and derivative components

A conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments is a conversion option derivative.

At the date of issue, both the debt component and derivative components are recognised at fair value. In subsequent periods, the debt component of the convertible notes is carried at amortised cost using the effective interest method. The derivative component is measured at fair value with changes in fair value recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity *(continued)*

Convertible notes contain debt and derivative components (continued)

Transaction costs that relate to the issue of the convertible notes are allocated to the debt and derivative components in proportion to their relative fair values. Transaction costs relating to the derivative components are charged to profit or loss immediately. Transaction costs relating to the debt component are included in the carrying amount of the debt portion and amortised over the period of the convertible notes using the effective interest method.

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 recognises 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 and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

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.

Impairment assessment of intangible assets

Management carries out a review on intangible assets at the end of each reporting period and impairment is made when events or changes in circumstances indicate that the carrying amounts may not be recoverable. In determination whether and how much an asset is impaired involves management estimate of the recoverable amount, which is the lower of carrying amount and the value in use. The Group engaged professional valuer to carry out the valuation. The value in use calculation requires management to estimate the future cash flows generated by intangible assets discounted to its present value by using a suitable discount rate. The projected cash flow is prepared for the Group's portfolio of purchased license rights based on the forecast income and gross margin from the purchased license rights, with reference to the marketability of the purchased license rights as well as the general market condition for media industry. When the actual future cash flows are less than expected, or changes in facts and circumstances which result in downward revision of future cash, a further impairment loss may arise. As at 31 December 2016, the carrying values of intangible assets are HK$82,372,000 (net of the accumulated impairment losses of HK$901,440,000) (2015: HK$114,633,000 (net of the accumulated impairment losses of HK$887,727,000)). During the year ended 31 December 2016, impairment loss of HK$13,713,000 (2015: HK$23,729,000) is recognised in profit or loss.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Key sources of estimation uncertainty *(continued)*

Provision of inventories

Management carries out a review on inventories at each of the reporting period and provision is made when net realisable values of inventories are estimated to be less than their carrying amounts. The Group engaged a professional valuer to carry out the estimation of selling prices of the inventories for the script, synopsis and editing/publishing rights with details as set out in note 15. Where the net realisable value is different from the original estimate, additional allowance for inventories may required. As at 31 December 2016, the carrying amounts of inventories are HK$226,849,000 (net of provision of HK$266,476,000) (2015: HK$252,238,000 (net of provision of HK$265,690,000)). During the year ended 31 December 2016, an impairment loss of HK$4,155,000 (2015: HK$11,359,000) was recognised.

Impairment of trade receivables

The policy for impairment of trade receivables of the Group is based on the evaluation of recoverability of trade receivables based on management's judgement. Impairment loss is recognised on trade receivables whenever there is any objective evidence that the balances may not be recoverable. In determining whether impairment loss is required, management takes into account the settlement history of the customers including default or delay in payments, settlement records during the year, subsequent settlement and aging analysis of trade receivables. Where the actual outcome of the recoverability are less than expected, or being revised downward due to changes in facts and circumstances, a material impact loss may arise. As at 31 December 2016, the carrying amount of trade receivables is approximately HK$352,818,000 (31 December 2015: HK$171,381,000). There was no impairment loss recognised for years ended 31 December 2016 and 2015.

Valuation of convertible notes and embedded derivatives

As described in note 22, management uses their judgement in selecting an appropriate valuation technique for financial liabilities not quoted in an active market. The fair values of the convertible notes are estimated based on the discounted cash flow and the key input used in the estimation is the discount rate. The fair values of the embedded derivative are estimated based on binomial option pricing model and the key inputs used in estimation are the stock price, volatility and risk-free interest rate. The carrying amounts of convertible notes and embedded derivative as at 31 December 2016 are HK$159,573,000 (2015: nil) and 55,685,000 (2015: nil) respectively. Management believes that the chosen valuation techniques and assumptions are appropriate in determining the fair value of the convertible notes and embedded derivatives.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Key sources of estimation uncertainty *(continued)*

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. Adjustments may need to be made to the carrying amounts of intangible assets should there be a material difference between the expected revenue and the actual results.

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 judgement 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 2016 is HK$397,643,000 (2015: HK$100,619,000).

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
  - — Licensing income from purchased license rights
- Film investment
  - — Investment in film rights

An operating segment regarding the television and other advertising was discontinued in 2015 and details are set out in note 32. The segment information reported does not include any amounts for these discontinued operations.

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 2016

Continuing operations	Television program related business HK$'000	Film investment HK$'000	Total HK$'000
Revenue	**127,081**	**421,348**	**548,429**
Segment profit	**69,991**	**109,617**	**179,608**
Unallocated income			**35,806**
Unallocated expenses			**(31,426)**
Fair value change of the embedded derivatives			**(61,696)**
Finance costs			**(47,931)**
Profit before taxation			**74,361**

For the year ended 31 December 2015

Continuing operations	Television program related business HK$'000	Film investment HK$'000	Total HK$'000
Revenue	166,831	24,559	191,390
Segment profit	55,664	11,239	66,903
Unallocated expenses			(12,007)
Finance costs			(5,377)
Profit before taxation			49,519

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

5. REVENUE AND SEGMENT INFORMATION *(continued)*

(a) Segment revenue and results *(continued)*

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

(b) Segment assets and liabilities

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

As at 31 December 2016

Continuing operations	Television program related business HK$'000	Film investment HK$'000	Total HK$'000
Assets			
Segment assets	359,615	765,937	1,125,552
Other assets			434,864
Consolidated assets			1,560,416
Liabilities			
Segment liabilities	(140,907)	(46,204)	(187,111)
Other liabilities			(808,733)
Consolidated liabilities			(995,844)

5. REVENUE AND SEGMENT INFORMATION *(continued)*

(b) Segment assets and liabilities *(continued)*

As at 31 December 2015

Continuing operations	Television program related business HK$'000	Film investment HK$'000	Total HK$'000
Assets			
Segment assets	473,284	203,613	676,897
Other assets			50,759
Consolidated assets			727,656
Liabilities			
Segment liabilities	(152,163)	(9,633)	(161,796)
Other liabilities			(72,072)
Consolidated liabilities			(233,868)

5. REVENUE AND SEGMENT INFORMATION *(continued)*

(b) Segment assets and liabilities *(continued)*

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, loan notes, convertible notes, embedded derivatives, other borrowing and certain accruals and other payables.

(c) Other segment information

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

For the year ended 31 December 2016

Continuing operations	Television program related business HK$'000	Film investment HK$'000	Unallocated HK$'000	Total HK$'000
Additions to property, plant and equipment	7	367	8	382
Depreciation for property, plant and equipment	38	123	96	257
Impairment loss recognised in respect of:				
— intangible assets	13,713	—	—	13,713
Amortisation of intangible assets	14,293	—	—	14,293
Provision for inventories	4,155	—	—	4,155

5. REVENUE AND SEGMENT INFORMATION *(continued)*

(c) Other segment information *(continued)*

For the year ended 31 December 2015

Continuing operations	Television program related business HK$'000	Film investment HK$'000	Unallocated HK$'000	Total HK$'000
Additions 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
Provision for inventories	11,359	—	—	11,359

(d) Geographical information

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

	Revenue from external customers		**Non-current assets**	
	2016 HK$'000	2015 HK$'000	**2016 HK$'000**	2015 HK$'000
Hong Kong	**—**	1,103	**82,756**	114,898
PRC	**548,429**	190,287	**6**	—
	548,429	191,390	**82,762**	114,898

5. REVENUE AND SEGMENT INFORMATION *(continued)*

(e) Revenue from major products and services

	2016 HK$'000	2015 HK$'000
Film investment income	**421,348**	24,559
Sales of editing rights	**125,133**	166,831
Licensing income from purchased licence right	**1,948**	—
	548,429	191,390

(f) Information about major customers

The aggregate revenue attributed to the Group's five largest customers accounted for approximately 95% (2015: 68%) of the Group's total revenue and the largest customer accounted for approximately 46% (2015: 18%) of the Group's total revenue for the financial year ended 31 December 2016.

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

	2016 HK$'000	2015 HK$'000
Customer A — (Films investment)	**255,068**	N/A
Customer B — (Films investment)	**119,764**	—
Customer C — (Television program related business)	**N/A**	35,047
Customer D — (Television program related business)	**N/A**	28,656
Customer E — (Television program related business)	**N/A**	29,850
Customer F — (Television program related business)	**N/A**	19,923

6. FINANCE COSTS

	2016 HK$'000	2015 HK$'000
Interest on:		
Loan notes (Note 21)	**23,360**	—
Convertible notes (Note 22)	**3,042**	—
Other borrowing (Note 23)	**21,529**	2,381
Loan from a shareholder	**—**	2,996
	47,931	5,377

7. TAXATION

	2016 HK$'000	2015 HK$'000
The tax charge comprises:		
Current tax:		
PRC Enterprise Income Tax ("EIT")	**53,274**	36,978
Over-provision in prior year		
PRC EIT	**(5,354)**	—
Total income tax expense recognised in profit or loss	**47,920**	36,978

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

Under the Law of the People's Public 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 overseas 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 profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2016 HK$'000	2015 HK$'000
Profit before taxation from continuing operations	**74,361**	49,519
Tax at the average income tax rate of 16.5% (2015: 16.5%)	**12,270**	12,380
Tax effect of expenses not deductible for tax purpose	**24,350**	18,273
Tax effect of income not taxable for tax purpose	**(5,692)**	(6,690)
Over-provision in respect of prior year	**(5,354)**	—
Tax effect of tax losses not recognised	**4,233**	4,272
Effect of different tax rates of subsidiaries operating in other jurisdictions	**18,113**	8,743
Tax charge for the year	**47,920**	36,978

At the end of the reporting period, the Group has unutilized tax losses of approximately HK$261,903,000 (2015: HK$236,248,000) available to offset against future profits. No deferred tax asset has been recognized in respect of the unutilized tax losses due to the unpredictability of future profits stream. Such tax losses can be carried forward indefinitely.

8. PROFIT FOR THE YEAR

	2016 HK$'000	2015 HK$'000
Profit for the year from continuing operations has been arrived at after charging:		
Directors' emoluments	**4,502**	2,973
Other staff costs	**6,697**	3,066
Retirement benefits scheme contribution(excluding directors)	**217**	123
Auditors' remuneration	**3,700**	3,680
Depreciation for property, plant and equipment	**257**	245
Amortisation of intangible assets (included in cost of sales)	**14,293**	17,401
Cost of film rights expensed (included in cost of sales)	**285,858**	20,464
Cost of editing rights expensed (included in cost of sales)	**21,233**	10,109
Minimum lease payments	**2,667**	598
Exchange loss (included in other expense)	**11,312**	1,785
and after crediting:		
Interest income (included in other income)	**1,641**	13
Gain on disposal of subsidiaries (included in other income)	**32,858**	—
Promotional service income (included in other income)	**1,509**	—

9. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and CO, is as follows:

2016

Name of director	Date of appointment/resignation	Fees HK$'000	Salary HK$'000	Contribution to retirement benefits scheme HK$'000	Total HK$'000
Executive directors:					
Chan Chi To, Antony	Resigned on 24 November 2016	640	—	15	655
Hao Bin	Resigned on 4 July 2016	130	360	8	498
Kong Dalu		240	315	—	555
Wang Hai Yun	Retired on 3 June 2016	40	—	—	40
Yao Qinyi	Appointed on 24 November 2016	—	—	—	—
Zhong Naixiong	Appointed on 11 November 2016	—	—	—	—
Wang Fei	Appointed on 11 January 2016 Resigned on 11 November 2016	284	—	—	284
Jiang Feng	Appointed on 29 April 2016 Resigned on 11 November 2016	1,750	—	—	1,750
Independent non-executive directors:					
Du Jiang		240	—	—	240
Liu Xianbo		240	—	—	240
Wu Chien-Chiang		240	—	—	240
		3,804	675	23	4,502

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

2015

Name of director	Date of appointment/resignation	Fees HK$'000	Salary HK$'000	Contribution to retirement benefits scheme HK$'000	Total HK$'000
Executive directors:					
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	—	—	—	—
Independent non-executive directors:					
Du Jiang		240	—	—	240
Liu Xianbo		240	—	—	240
Wu Chien-Chiang		240	—	—	240
Jiang Jinsheng	Resigned on 6 August 2015	144	—	—	144
		2,235	720	18	2,973

No directors waived any emoluments for the years ended 31 December 2015 and 2016.

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.

The executive directors' emoluments for both 2015 and 2016 were mainly for their services in connection with the management of the fairs of the Company and the Group.

The independent non-executive directors' emoluments for both 2015 and 2016 were mainly for their services as directors of the Company.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included three directors (2015: two directors), details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining two (2015: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2016 HK$'000	2015 HK$'000
Salaries and other benefits	1,880	1,656
Contribution to retirement benefits scheme	45	35
	1,925	1,691

The number of the highest paid employees who are not the directors of the Company whose remuneration fell within the following bands is as follows:

	Number of employees	
	2016	2015
Nil — HK$1,000,000	1	3
HK$1,000,001 — HK$1,500,000	1	—

11. DIVIDENDS

No dividend was paid or proposed for the years ended 31 December 2016 and 2015, nor has any dividend been proposed since the end of the reporting periods.

12. EARNINGS PER SHARE

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

	2016 HK$'000	2015 HK$'000
Profit for the purposes of basic and diluted earnings per share	22,961	19,476
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	815,866,000	721,660,000

12. EARNINGS PER SHARE *(continued)*

For continuing operations

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

	2016 HK$'000	2015 HK$'000
Profit for the year attributable to owners of the Company	**22,961**	19,476
Less: Profit for the year from discontinued operations	**—**	6,710
Profit for the purposes of basic earnings from continuing operations	**22,961**	12,766

The computation of diluted earnings per share does not assume the conversion of the Company's outstanding convertible notes since their assumed exercise would result in an increase in earnings per share from continuing operations.

For discontinued operations

For the year ended 31 December 2015, the basic and diluted earnings per share from discontinued operation is HK$0.01 earnings per share, based on the profit for the year from the discontinued operation of HK$6,710,000 and denominators detailed above for both basic and diluted earnings per shares.

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture, fixtures and other fixed assets HK$'000	Props and costumes HK$'000	Total HK$'000
COST				
As at 1 January 2015	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
Additions	292	90	—	382
Written off	—	—	(7)	(7)
As at 31 December 2016	435	1,782	—	2,217
DEPRECIATION				
As at 1 January 2015	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
Provided for the year	124	133	—	257
Written off	—	—	(7)	(7)
As at 31 December 2016	192	1,635	—	1,827
CARRYING VALUES				
As at 31 December 2016	243	147	—	390
As at 31 December 2015	75	190	—	265

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

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%

14. INTANGIBLE ASSETS

	Purchased licence rights HK$'000
COST	
As at 1 January 2015 and 2016	1,230,127
Additions	154
Eliminated on disposal of subsidiaries	(28,796)
As at 31 December 2016	1,201,485
AMORTISATION AND IMPAIRMENT	
As at 1 January 2015	1,074,364
Provided for the year	17,401
Impairment loss recognised in profit or loss	23,729
As at 31 December 2015	1,115,494
Provided for the year	14,293
Impairment loss recognised in profit or loss	13,713
Eliminated on disposal of subsidiaries	(24,387)
As at 31 December 2016	1,119,113
CARRYING VALUES	
As at 31 December 2016	82,372
As at 31 December 2015	114,633

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 licence out these broadcasting rights to TV stations and other broadcasting and media channels for broadcasting in particular location for a finite period.

14. INTANGIBLE ASSETS *(continued)*

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

Purchased license rights	9 years — 15 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.

Management has reviewed the recoverable amount of the purchased licence rights with reference to their value in use on 31 December 2016 and 2015. The value in use has been arrived at with reference to the valuation carried out on 31 December 2016 and 2015 by Ascent Partners Valuation Service Limited, an independent qualified professional valuer not connected with the Group and a member of Hong Kong Institute of Surveyors with appropriate qualifications and recent experiences in the valuation of similar assets.

The value in use is estimated for the broadcasting rights based on the discounted cash flows analysis based on assumptions about future net cash flows from these rights at a discount rate of 20.08% (2015: 20.04%). Other assumptions for the future cash flow estimation, included forecast income and gross margin from the purchased license rights, are determined with reference to 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$13,713,000 (2015: HK$23,729,000) is recognised in profit or loss accordingly.

15. INVENTORIES

Inventories represent the cost of scripts, synopsis, 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.

Management has reviewed the net realisable value of inventories with reference to a valuation carried out on 31 December 2016 and 2015 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 the market information on estimated selling prices adjusted for factors such as authorship, length of the works, historical trends on marketability of the works.

An impairment loss of HK$4,155,000 is recognised for the year ended 31 December 2016 (2015: HK$11,359,000) due to the continuous unsatisfactory results from the sales of these works.

16. FILM RIGHTS INVESTMENTS

	HK$'000
As at 1 January 2015	43,243
Additions	77,840
Recognised as an expense included in cost of sales	(20,464)
As at 31 December 2015	100,619
Additions	582,882
Recognised as an expense included in cost of sales	(285,858)
As at 31 December 2016	**397,643**

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

	2016 **HK$'000**	2015 HK$'000
Trade receivables	**352,818**	171,381
Deposits, prepayments and other receivables	**91,550**	67,360
	444,368	238,741

The Group allows an average credit period of 90 — 180 days to its trade customers for 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 90 days after receipt of box office certificate and profit sharing confirmation.

The following is an aged analysis of trade receivables presented based on the invoice date, contract date or receipt of box office certificate and profit sharing confirmation, as appropriate, at the end of the report period.

17. TRADE AND OTHER RECEIVABLES *(continued)*

	2016 HK$'000	2015 HK$'000
0 — 30 days	**1,104**	115,757
31 — 60 days	**7,852**	20,935
61 — 90 days	**86,136**	—
91 — 180 days	**255,604**	796
181 — 365 days	**2,122**	17,282
Over 1 year	**—**	16,611
	352,818	171,381

As at 31 December 2016, trade receivables of HK$257,726,000 (2015: HK$53,894,000) were past due but not impaired. These related to the independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	2016 HK$'000	2015 HK$'000
Overdue less than 90 days	**255,604**	29,369
Overdue 91 — 180 days	**2,122**	24,525
	257,726	53,894

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 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 2016, an amount of HK$67,207,000 (2015: HK$47,516,000) prepaid 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 no impairment loss was recognised for both 2016 and 2015.

As at 31 December 2015, the directors of the Company conducted an impairment assessment on the deferred sales proceeds in relation to the disposal of subsidiaries incurred in 2014 and determined an impairment loss of HK$8,569,000 was recognised.

18. CASH AND CASH EQUIVALENTS

Bank balances and cash

Bank balances carry interest at market rates which range from 0.001% to 0.25% (2015: 0.001% to 3.27%) per annum.

Cash held by securities broker

Cash held by securities broker represented unrestricted deposits of approximately HK$340,000,000 (2015: nil) placed with securities brokers for trading securities in Hong Kong.

19. TRADE AND OTHER PAYABLES

	2016 HK$'000	2015 HK$'000
Trade payables	**6,088**	4,322
Accruals	**13,308**	47,076
Other payables	**48,941**	39,248
	68,337	90,646

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 2016 is an amount of HK$41,538,000 (2015: HK$28,413,000) relating to other tax payables arising from the PRC operation.

As at 31 December 2015, an amount of HK$38,186,000 in respect of an alleged settlement of sums payable arose from a pending litigation with a business partner. The balance was disposed of upon the disposal of the subsidiaries as disclosed in Note 31.

20. LOAN FROM A SHAREHOLDER

As at 31 December 2015, the loan from a shareholder with significant influence over the Company amounting to HK$50,000,000 was unsecured, interest-bearing at 10% per annum and repayable on demand. The loan was fully repaid in 2016.

21. LOAN NOTES

The movements of the loan notes for the year are set out below:

	2016 HK$'000	2015 HK$'000
At the beginning of the year	—	—
Issue of loan notes	758,954	—
Effective interest charged (Note 6)	23,360	—
Coupon interest paid/payable	(22,352)	—
Redemption	(314,431)	—
	445,531	—

The loan notes amounting to HK$445,531,000 are unsecured and repayable within one year.

As at the end of the reporting period, the amounts comprised of:

(a) The Company issued a six-month note ("Note I") to Amazing Union Limited, an independent third party with aggregate principal amount of HK$250,000,000 in January 2016 with fixed coupon rate of 9% per annum each, with the guarantee by SMI Holdings, the immediate holding company of the Group. The effective interest rate is 9%. During the year ended 31 December 2016, Note I of HK$250,000,000 has been fully redeemed.

On the date of issuance, the fair value of the Note I was amounted to HK$250,000,000.

(b) The Company issued a 1-year note ("Note II") to Cheer Hope Holdings Limited ("Cheer Hope"), an independent third party with aggregate principal amount of HK$315,000,000 in August 2016 with fixed coupon rate of 5% per annum each, with the guarantee by SMI Holdings, the immediate holding company of the Group. Note II will be redeemed at an amount that would make up an aggregate internal rate of return on the relevant amount at 10% per annum thereon. The effective interest rate of the Note II is 6.22%. During the year ended 31 December 2016, loan notes of HK$64,431,000 have been early redeemed.

On the date of issuance, the fair value of the Note II was amounted to HK$311,287,000.

(c) The Company issued a 1-year note ("Note III") to Ever Ascend Investments Limited ("Ever Ascend"), an independent third party with aggregate principal amount of HK$200,000,000 in August 2016 with fixed coupon rate of 5% per annum each, with the guarantee by SMI Holdings. Note III will be redeemed at an amount that would make up an aggregate internal rate of return on the relevant amount at 10% per annum thereon. The effective interest rate of the Note III is 6.24%.

On the date of issuance, the fair value of the Note III was amounted to HK197,667,000.

22. CONVERTIBLE NOTES AND EMBEDDED DERIVATIVES

(a) The Company issued 1-year 5% convertible note ("Convertible Note I") with principal amount of HK$35,000,000 on 8 August 2016 to Cheer Hope, an independent third party investor. The Convertible Note I is denominated in Hong Kong dollars and entitles the holder to convert it into ordinary shares of the Company at any business date from and including the date falling one year from the issue date up to the close of business on the maturity date on 8 August 2017 at a conversion price of HK$0.675 per share, subject to adjustments and resets in accordance with the terms and conditions of Convertible Note I, provided that the conversion price shall not in any event be lower than HK$0.38. Convertible Note I is unsecured and guaranteed by SMI Holdings, the immediate holding company of the Group. If the Convertible Note I has not been converted, they will be redeemed at such amount that would make up an aggregate internal rate of return on relevant amount at 10% per annum thereon calculated from the issue date to (and including) the maturity date. No early redemption is allowed. Interest of 5% per annum will be payable every six months from the issue date in arrears.

The Convertible Note I contains two components, a liability component and a conversion option. The conversion option is not closely related to the liability component and is classified as a derivative because the conversion will not result in the Company issuing a fixed number of shares in settlement of a fixed amount of liability component. Conversion option is measured at fair value with change in fair value recognised in profit or loss.

The movements of the liability component and embedded derivative of the Convertible Note I for the year are set out as below:

	Liability component HK$'000	**Embedded derivative** HK$'000	**Total** HK$'000
As at 1 January 2016	—	—	—
Issued during the year	33,694	894	34,588
Interest charged	843	—	843
Interest paid/payable	(488)	—	(488)
Converted during the year	(34,049)	(10,294)	(44,343)
Loss arising on change in fair value	—	9,400	9,400
As at 31 December 2016	—	—	—

At the date of issue, the liability component was recognised at fair value. The fair value of liability component was calculated based on the present value of the contractually determined stream of future cash flows discounted at the required yield, which was determined with reference to the average yield of notes with similar credit rating and remaining time to maturity. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. The effective interest rate of the liability component of the Convertible Note I is 8.94%.

22. CONVERTIBLE NOTES AND EMBEDDED DERIVATIVES *(continued)*

(a) *(continued)*

Binomial option pricing model is used for valuation of conversion option of the Convertible Note I. The inputs into the model were as follows:

	21 November 2016
Stock price	HK$0.830
Exercise price	HK$0.675
Volatility	37.51%
Option life	0.72 year
Risk-free interest rate	0.53%

The valuations of the liability component and conversion option and other embedded derivatives of the Convertible Note I are determined with the involvement of an independent qualified valuer, GW Financial Advisory Services Limited ("GW Financial Advisory Services").

On 21 November 2016, the Convertible Note I holder exercised the conversion rights to the entire principal amount of HK$35,000,000 of the Convertible Note I, to convert into ordinary shares at a conversion price of HK$0.675 per ordinary share, and a total of 51,851,851 conversion ordinary shares were then issued. As at 31 December 2016, no Conversion Note I was outstanding.

(b) The Company issued 1-year 5% convertible note ("Convertible Note II") with principal amount of HK$100,000,000 on 26 October 2016 to Ever Ascend, an independent third party investor. The Convertible Note II is denominated in Hong Kong dollars and entitle the holder to convert it into ordinary shares of the Company at any business date from and including the date falling one year from the issue date up to the close of business on the maturity date on 25 October 2017 at a conversion price of HK$0.675 per share, subject to adjustments and resets in accordance with the terms and conditions of Convertible Note II, provided that the conversion price shall not in any event be lower than HK$0.38. Convertible Note II is unsecured and guaranteed by SMI Holdings, immediate holding company of the Group. If the Convertible Note II has not been converted, they will be redeemed at such amount that would make up an aggregate internal rate of return on relevant amount at 10% per annum thereon calculated from the issue date to (and including) the maturity date. No early redemption is allowed. Interest of 5% per annum will be payable every six months from the issue date in arrears.

The Convertible Note II contains two components, a liability component and a conversion option. The conversion option is not closely related to the liability component and is classified as a derivative because the conversion will not result in the Company issuing a fixed number of shares in settlement of a fixed amount of liability component. Conversion option is measured at fair value with change in fair value recognised in profit or loss.

22. CONVERTIBLE NOTES AND EMBEDDED DERIVATIVES *(continued)*

(b) *(continued)*

The movements of the liability component and embedded derivative of the Convertible Note II for the year are set out as below:

	Liability component HK$'000	**Embedded derivative** HK$'000	**Total** HK$'000
As at 1 January 2016	—	—	—
Issued during the year	96,253	2,579	98,832
Interest charged	1,606	—	1,606
Interest paid/payable	(2,624)	—	(2,624)
Loss arising on change in fair value	—	32,342	32,342
As at 31 December 2016	95,235	34,921	130,156

At the date of issue, the liability component was recognised at fair value. The fair value of liability component was calculated based on the present value of the contractually determined stream of future cash flows discounted at the required yield, which was determined with reference to the average yield of notes with similar credit rating and remaining time to maturity. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. The effective interest rate of the liability component of the Convertible Note II is 9.11%.

Binomial option pricing model is used for valuation of conversion option of the Convertible Note II. The inputs into the model were as follows:

	31 December 2016
Stock price	HK$0.860
Exercise price	HK$0.675
Volatility	36.04%
Option life	0.82 year
Risk-free interest rate	0.86%

The valuations of the liability component and conversion option and other embedded derivatives of the Convertible Note II are determined with the involvement of GW Financial Advisory Services.

22. CONVERTIBLE NOTES AND EMBEDDED DERIVATIVES *(continued)*

(c) The Company issued 1-year 5% convertible note ("Convertible Note III") with principal amount of HK$65,000,000 on 11 November 2016 to Cheer Hope, an independent third party investor. The Convertible Note III is denominated in Hong Kong dollars and entitle the holder to convert it into ordinary shares of the Company at any business date from and including the issue date up to the close of business on the maturity date on 8 August 2017 at a conversion price of HK$0.675 per share, subject to adjustments and resets in accordance with the terms and conditions of the Convertible Note III, provided that the conversion price shall not in any event be lower than HK$0.38. Convertible Note III is unsecured and guaranteed by SMI Holdings, immediate holding company of the Group. If the Convertible Note III have not been converted, they will be redeemed at such amount that would move up an aggregate internal rate of return on relevant amount at 10% per annum thereon calculated form the issue date to (and including) the maturity date. No early redemption is allowed. Interest of 5% per annum will be payable every six months from the issue date in arrears.

The Convertible Note III contains two components, a liability component and a conversion option. The conversion option is not closely related to the liability component and is classified as a derivative because the conversion will not result in the Company issuing a fixed number of shares in settlement of a fixed amount of liability component. Conversion option is measured at fair value with change in fair value recognised in profit or loss.

The movements of the liability component and embedded derivative of the Convertible Note III for the year are set out as below:

	Liability component HK$'000	**Embedded derivative** HK$'000	**Total** HK$'000
As at 1 January 2015 and 2016	—	—	—
Issued during the year	64,190	810	65,000
Interest charged	593	—	593
Interest paid/payable	(445)	—	(445)
Loss arising on change in fair value	—	19,954	19,954
As at 31 December 2016	64,338	20,764	85,102

At the date of issue, the liability component was recognised at fair value. The fair value of liability component was calculated based on the present value of the contractually determined stream of future cash flows discounted at the required yield, which was determined with reference to the average yield of notes with similar credit rating and remaining time to maturity. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. The effective interest rate of the liability component of the Convertible Note III is 6.75%.

22. CONVERTIBLE NOTES AND EMBEDDED DERIVATIVES *(continued)*

(c) *(continued)*

Binomial model is used for valuation of conversion option of the Convertible Note III. The inputs into the model were as follows:

	31 December 2016
Stock price	HK$0.860
Exercise price	HK$0.675
Volatility	37.73%
Option life	0.61 year
Risk-free interest rate	0.82%

The valuations of the liability component and conversion option and other embedded derivatives of the Convertible Note III are determined with the involvement of GW Financial Advisory Services.

23. OTHER BORROWING

As at 31 December 2016, other borrowing borrowed by the Group amounting to HK$125,576,000, which was repayable on demand, unsecured and bore interest at fixed rate of 17.5% per annum.

24. SHARE CAPITAL

	Par value	Number of shares '000	Share capital HK$'000
Authorised:			
As at 1 January 2015			
— Ordinary shares of US$0.1 each (note (i)(a))	HK$0.78	1,000,000	780,000
Capital reduction (note (i)(b))		—	(770,000)
	HK$0.01	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 and 2016	HK$0.01	100,000,000	1,000,000
Issued and fully paid:			
As at 1 January 2015		562,558	438,795
Cancellation of share premium account and capital reorganisation (note (i)(d))		—	(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
Issue of conversion shares (note (iii))		51,852	519
As at 31 December 2016		861,910	8,620

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$438,795,000, 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.

24. SHARE CAPITAL *(continued)*

Notes: *(continued)*

(i) Capital reorganisation *(continued)*

(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.

(iii) Issue of conversion shares

On 11 November 2016, a convertible note holder Cheer Hope elected to exercise the conversion rights to the extent of the principal amount of HK$35,000,000 of the convertible note, for the conversion of 51,851,851 ordinary shares of HK$0.01 each at a conversion price of HK$0.675 per share. The conversion was completed on 21 November 2016 and the premium on issue of shares amounting to approximately HK$43,824,000 was credited to the Company's share premium amount.

25. OPERATING LEASES

The Group as lessee

	2016 HK$'000	2015 HK$'000
Minimum lease payments recognised under operating leases for premises during the year	2,667	598

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:

	2016 HK$'000	2015 HK$'000
Within one year	—	541

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 (2015: one year).

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 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$240,000 (2015: HK$141,000) 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 2016.

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:

	Notes	**2016 HK$'000**	2015 HK$'000
Non-current assets			
Investment in subsidiaries	(a)	**390**	390
Amount due from subsidiaries		**473,942**	206,977
		474,332	207,367
Current assets			
Prepayments, deposits and other receivables		**23,600**	35,110
Bank balances and cash		**354,686**	15,649
		378,286	50,759
Total liability			
Accrual and other payables		**16,115**	22,072
Loan from a shareholder		**—**	50,000
Loan notes		**445,531**	—
Convertible notes		**159,573**	—
Embedded derivatives		**55,685**	—
Other borrowing		**125,576**	—
		802,480	72,072
Net assets		**50,138**	186,054
Capital and reserves			
Share capital	24	**8,620**	8,101
Reserves	(b)	**41,518**	177,953
		50,138	186,054

27. FINANCIAL INFORMATION OF THE COMPANY *(continued)*

Notes:

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

(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 2015	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(i)(d))	(1,092,929)	—	—	1,526,098	—	—	433,169
Capital reorganisation (note 24(i)(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	190,417	95	14,759	—	—	(27,318)	177,953
Loss for the year	—	—	—	—	—	(180,259)	(180,259)
Issue of shares upon conversion of convertible notes (note 22)	43,824	—	—	—	—	—	43,824
As at 31 December 2016	234,241	95	14,759	—	—	(207,577)	41,518

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

	2016 HK$'000	2015 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	775,487	202,541
Financial liabilities		
Amortised cost	785,709	93,570
Embedded derivatives	55,685	—

29b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bank balances and cash, trade and other payables, loan from a shareholder, loan notes, convertible notes, other borrowing and embedded derivatives. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk and price 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

Interest rate risk

The Group's fair value interest rate risk relates to fixed rate loan from a shareholder (note 20), loan notes (note 21), convertible notes (note 22) and other borrowing (note 23).

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances (note 18). The Group's cash flow interest rate is mainly concentrated on the fluctuation of interest rates on bank balances.

The Group's fair value interest rate risk relates primarily to the loan from a shareholder, loan notes, convertible notes and other borrowing. 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 have been determined based on the exposure to interest rates on bank balances. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year.

29. FINANCIAL INSTRUMENTS *(continued)*

29b. Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

Interest rate risk (continued)

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 2016 would increase by approximately HK$2,044,000 (2015: increase by HK$106,000). 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.

Price risk on embedded conversion option

The Group is required to estimate the fair value of the conversion option embedded in the convertible notes at the end of the reporting period with changes in fair value to be recognised in the profit or loss as long as the convertible notes are outstanding. The fair value adjustment will be affected either positively or negatively, amongst others, by the changes in market interest rate, the Company's share market price and share price volatility.

The sensitivity analysis below have been determined based on the exposure to the Company's share price risk at the reporting date only. If the Company's share price at the reporting date had been 10% higher/lower and assuming all other variables were held constant, the impact to the Group's post-tax profit for the year (as a result of changes in fair value of embedded derivatives of convertible notes) would be:

	2016 HK$'000	2015 HK$'000
10% higher in Company's share price		
Increase in post-tax profit (2015:nil)	**21,022**	—
10% lower in Company's share price		
Decrease in post-tax profit (2015: nil)	**21,016**	—

In the opinion of the directors of the Company, the sensitivity analysis above is unrepresentative of the inherent market risk as the pricing model used in the fair value valuation of the loan receivable with embedded derivation involves multiple variables and certain variables are interdependent.

29. FINANCIAL INSTRUMENTS *(continued)*

29b. Financial risk management objectives and policies *(continued)*

Foreign currency risk

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

Credit risk

As at 31 December 2016, 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 and financial institutions 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 2016 on trade receivable from the Group's 5 major customers amounting to HK$329,769,000 (2015: HK$131,350,000) and accounted for 93% (2015: 76%) 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.

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. The management monitors the utilisation of all the borrowings and ensures compliance with loan covenants.

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**
2016				
Trade and other payables	**—**	**55,029**	**55,029**	**55,029**
Loan notes	**6.23**	**468,355**	**468,355**	**445,531**
Convertible notes	**8.17**	**169,895**	**169,895**	**159,573**
Other borrowings	**17.5**	**131,070**	**131,070**	**125,576**
		824,349	**824,349**	**785,709**

	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	—	43,570	43,570	43,570
Loan from a shareholder	10	55,000	55,000	50,000
		98,570	98,570	93,570

29. FINANCIAL INSTRUMENTS *(continued)*

29c. Fair values

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of option-based derivative instruments (embedded derivative as included in convertible notes), is estimated using option pricing model; and

- the fair value of other financial assets and financial liabilities (excluding derivative financial instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

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

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	31 December 2016			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Embedded conversion and other options of convertible notes	—	—	(55,685)	(55,685)

There were no financial instrument classified as Level 1, 2 and 3 in the year of 2015.

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.

30. RELATED PARTY TRANSACTIONS

Apart from the loan from a shareholder disclosed in note 20 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:

	2016 HK$'000	2015 HK$'000
Short-term employee benefits (Note 9)	4,479	2,955
Post-employment benefits	23	18
	4,502	2,973

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

Related parties

Name of company	Nature of transactions	2016 HK$'000	2015 HK$'000
SMI Holdings Group Limited ("SMI Holdings")	Interest expense	—	2,996

31. DISPOSAL OF SUBSIDIARIES

On 20 March 2015, the Group entered into an agreement to dispose two 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.

31. DISPOSAL OF SUBSIDIARIES *(continued)*

On 11 August 2016, the Group entered into an agreement to dispose of four wholly owned subsidiaries ("Smart Beyond Group") to a third party for an aggregate consideration of HK$8. The subsidiaries were principally engaged in purchased license rights investment and television program productions business. The disposal was completed during the year ended 31 December 2016, a net gain on disposal of these subsidiaries of HK$32,858,000 was recognised.

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

Disposal of Smart Beyond Group in 2016

	HK$'000
Consideration	1
Analysis of assets and liabilities over which control was lost:	
Intangible assets	4,409
Trade and other receivables	3,844
Bank balances and cash	57
Trade and other payables	(42,558)
Net liabilities disposed of	(34,248)
Gain on disposal of subsidiaries	
Consideration received	1
Net liabilities disposed of	34,248
Non-controlling interests	(1,391)
Gain on disposal of subsidiaries	32,858
Net cash outflow arising on disposal of subsidiaries	
Consideration	1
Less: Bank balances and cash disposed of	(57)
	(56)

31. DISPOSAL OF SUBSIDIARIES *(continued)*

Disposal of Guangzhou Qin Chuang Group in 2015

	HK$'000
Consideration	
Consideration	13,500
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)
Net assets disposed of	10,847
Gain on disposal of subsidiaries	
Consideration received	13,500
Net assets disposed of	(10,847)
Non-controlling interests	4,851
Gain on disposal of subsidiaries	7,504
Net cash inflow arising on disposal of subsidiaries	
Consideration used to set off the other payable (note 34)	—
Bank overdraft disposed of	12,649
Less: Bank balances and cash disposed of	(4,136)
	8,513

32. DISCONTINUED OPERATIONS

The business segment of television and other advertising business was classified as discontinued operation in respect of 2015. The profit from disposal of the discontinued operation is analysed as follows:

	2016 HK$'000	2015 HK$'000
Loss of discontinued operations for the year	**—**	(1,443)
Gain on disposal of subsidiaries (note 31)	**—**	7,504
Profit from disposal of discontinued operation	**—**	6,061

The results of the television and other advertising business for the period from 1 January 2015 to the date of cease of operation, which have been included in the consolidated income statement, were as follows:

	2016 HK$'000	2015 HK$'000
Revenue	**—**	22,618
Cost of sales	**—**	(22,950)
Gross loss	**—**	(332)
Other income	**—**	2
Other expenses	**—**	(21)
Administrative expenses	**—**	(1,092)
Loss for the year	**—**	(1,443)

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

	2016 HK$'000	2015 HK$'000
Net cash from operating activities	**—**	1,770
Net cash from investing activities	**—**	2
Net cash inflow	**—**	1,772

33. ACQUISITION OF SUBSIDIARIES/GOODWILL

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

	HK$'000
Cash	2,500

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

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

Net cash outflow on acquisition of subsidiaries

	HK$'000
Cash consideration paid	(2,500)
Less: Bank balances and cash acquired	1,987
	(513)

For the impairment testing on the goodwill, the entire carrying amount of goodwill has been allocated to the CGU which constitutes the models agent business. As the business is loss making and the directors of the Company do not except a future positive cash flow from this CGU, a full impairment loss of HK$2,943,000 was recognised in the profit or loss for the year ended 31 December 2015.

34. MAJOR NON-CASH TRANSACTIONS

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

35. EVENTS AFTER THE REPORTING PERIOD

On 24 January 2017, the Company entered into a subscription agreement with Mr. ZHONG Naixiong, the chairman of the Board and an executive director (the "Subscriber"), pursuant to which the subscriber, has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue a total of 357,145,000 subscription shares at the subscription price of HK$0.70 per subscription share. On the same date, the Company entered into a placing agreement with a placing agent pursuant to which the placing agent has conditionally agreed to place, on a best effort basis, a maximum number of 214,285,000 placing shares to placees at a price of HK$0.70 per placing share. The estimated aggregate gross and net proceeds of the subscription and the placing will be approximately HK$400 million and HK$395 million respectively, which are intended to be used for repayment of debts, financing any future investment or opportunities to be identified and general working capital of the Group. The share subscription and the placing have not yet been completed up to the reporting date.

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries at 31 December 2016 and 31 December 2015 are as follows:

Name of subsidiary	Place of incorporation	Issued and paid up capital	Proportion ownership interest held by the Company Direct		Indirect		Proportion of voting power held by the Company Direct		Indirect		Principal activities
			2016 %	2015 %	2016 %	2015 %	2016 %	2015 %	2016 %	2015 %	
Quick Gain Enterprises Limited	British Virgin Islands	Ordinary USD1	100	100	–	–	100	100	–	–	Holding company
Qin Jia Yuan Media Creation Co., Limited	British Virgin Islands	Ordinary USD1	–	–	100	100	–	–	100	100	Holding of adaption 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 International 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 adaption rights
Great Mean Enterprises Limited	British Virgin Islands	Ordinary USD1	–	–	100	100	–	–	100	100	Holding of adaption rights
SMI Culture Workshop Company Limited	Hong Kong	Ordinary HK$1	–	–	100	100	–	–	100	100	Film 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	Film 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
北京華夏勤加緣文化傳播有限公司	PRC	Ordinary RMB10,000,000	–	–	–	100	–	–	–	100	Provision of TV program and production related service

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(continued)*

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.

FINANCIAL SUMMARY

	Fifteen months ended 31 December 2012 HK$'000	Year ended 31 December 2013 HK$'000 (Restated)	Year ended 31 December 2014 HK$'000 (Restated)	Year ended 31 December 2015 HK$'000	**Year ended 31 December 2016 HK$'000**
STATEMENT OF PROFIT OR LOSS					
Turnover	478,842	8,752	37,442	191,390	**548,429**
(Loss) profit before taxation	(576,397)	(676,273)	(517,539)	49,519	**74,361**
Income tax	(49,831)	33	(1,873)	(36,978)	**(47,920)**
Profit (loss) for the year from discontinued operation	—	1,899	(43,843)	6,061	**—**
(Loss) profit after taxation	(626,228)	(674,341)	(563,255)	18,602	**26,441**
Attributable to:					
Equity shareholders of the Company	(626,058)	(675,376)	(560,689)	19,476	**22,961**
Non-controlling interests	1,830	1,035	(2,566)	(874)	**3,480**

	As at 30 September 2012 HK$'000	As at 31 December 2013 HK$'000	As at 31 December 2014 HK$'000	As at 31 December 2015 HK$'000	**As at 31 December 2016 HK$'000**
STATEMENT OF FINANCIAL POSITION					
Total assets	2,026,821	1,136,130	552,903	727,656	**1,560,416**
Total liabilities	(1,039,213)	(284,452)	(264,753)	(233,868)	**(995,844)**
Net assets	987,608	851,678	288,150	493,788	**564,572**
Total equity attributable to equity shareholders of the Company	984,166	849,280	288,318	499,870	**565,388**
Non-controlling interests	3,442	2,398	(168)	(6,082)	**(816)**
Total equity	987,608	851,678	288,150	493,788	**564,572**